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January 13th 2007

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America and its allies have failed in Iraq. George Bush is right to hold out against an even bigger failure: leader

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Politics this week

Jan 11th 2007
From The Economist print edition

AFP

In a speech broadcast on American television, George Bush outlined a new military plan for **Iraq**, involving an increase of more than 20,000 troops, in an effort to stem the current sectarian bloodbath, especially in Baghdad. The Democrats grumbled, but it is unlikely they will use their congressional majority to try to scupper the plan. See article

Mr Bush also made some personnel changes and nominated Mike McConnell, a former head of the National Security Agency, as the **director of national intelligence**. Mr McConnell replaces John Negroponte, who is moving to the State Department as Condoleezza Rice's deputy. See article

Also appointed was a new **White House counsel** to replace Harriet Miers. Fred Fielding was a deputy counsel during the Watergate scandal and was once, wrongly, thought to be “Deep Throat”.

Arnold Schwarzenegger proposed a radical shake-up of **California's** health-care system, presenting a $12 billion blueprint that requires Californians to have health insurance and provides help to those on low income to achieve that goal. The governor said his plan was intended to control some of the spiralling health-care costs that California, like most other states, is facing. See article

The Democratic-controlled House of Representatives passed legislation raising the **minimum wage** from $5.15 to $7.25 an hour. The bill must still be approved by the Senate and signed by the president.

The hunt goes on

America launched air strikes against Islamist fighters fleeing from the advance of government and Ethiopian troops in southern **Somalia**. Scores of Somali civilians were reported to have been killed. See article

Khaled Meshal, the overall leader of Hamas, the Islamist **Palestinian** movement which governs the West Bank and Gaza, hinted that he might recognise **Israel** at some point, should a Palestinian state be established on the 1967 ceasefire lines. “It is true that in reality there will be an entity or state called Israel on the rest of Palestinian land,” he said.

Nigeria's government said it lost $4.4 billion in oil revenues last year because of an increasing number of kidnappings and assaults on oil installations in the Niger Delta region. In the latest incident, nine South Koreans were seized from an energy facility; five Chinese, kidnapped last week, are still missing.

Reuters

Sudan's government and rebel groups in **Darfur** agreed to a 60-day ceasefire leading up to a peace summit to be hosted by the African Union. The breakthrough came after talks between Sudan's president, Omar al-Bashir, and Bill Richardson, the governor of New Mexico who is a former American ambassador to the UN.

Wake up, Europe

Belarus cancelled a transit tax on **Russian** oil. The tax, imposed after Russia doubled the price of gas supplies to Belarus, had prompted Russia to shut down a main oil pipeline to European Union countries, causing renewed alarm about Russia's reliability as an energy supplier. See article

In a step towards a common **European energy policy**, the European Commission unveiled a plan for EU members to cut greenhouse gases by 20% by 2020. The plan stresses renewable sources of energy, with all new power stations to be “carbon neutral”. See article

Stanislaw Wielgus, about to be installed as Roman Catholic **archbishop of Warsaw**, resigned after admitting collaborating with Poland's communist-era secret police. The dean of Cracow's cathedral resigned for similar reasons,

adding to the Vatican's embarrassment. See article

Prosecutors in **Sweden** began an inquiry into share options given to Carl Bildt, the country's foreign minister (and former prime minister), when he was on the board of a firm linked to Russia's Gazprom. Mr Bildt says the shares, which he sold for $690,000, were a legitimate reward.

Austria's two main parties formed a coalition government, three months after the election. The Social Democrat's leader, Alfred Gusenbauer, becomes chancellor.

Looking backwards

Venezuela's leftist president, Hugo Chávez, began a new six-year term in office by saying he would nationalise the telecoms and electricity industries and take other measures to accelerate his country's transformation into a socialist state. The main telephone and electricity companies are controlled by American firms; officials indicated that they would receive compensation. See article

Daniel Ortega, the leader of the left-wing Sandinistas, was sworn in as president of **Nicaragua**. He pledged good relations with the United States, which in the 1980s backed guerrillas trying to oust Mr Ortega's government, as well as with Venezuela and Cuba. See article

During a riot at an overcrowded prison in **El Salvador** 21 inmates were killed by members of a youth gang. More than 2,000 members of the security forces later regained control of the prison.

A former government minister in **Colombia** who was kidnapped by FARC guerrillas in 2000 managed to escape from his captors during a military operation.

Election woes

A state of emergency was declared in **Bangladesh,** after weeks of violent protests. An alliance of political parties is calling for electoral reform or the postponement of the general election due on January 22nd. The alliance claims the election would be rigged.

Bombings and shootings in the north-eastern Indian state of **Assam** killed some 70 migrant workers from other Indian states. The attacks were blamed on the United Liberation Front of Asom, a separatist insurgency. See article

America presented a draft resolution to the UN Security Council calling for political reform in **Myanmar**. The draft argues that Myanmar poses serious risks to peace and security in the region.

Israel's prime minister, Ehud Olmert, arrived in **China** for talks with his counterpart, Wen Jiabao. China has signalled it wants a greater role in the Middle East. Mr Olmert asked China to support tougher measures against Iran unless it halts work on its nuclear programme. See article

EPA

Chinese officials acknowledged that China is failing to meet its own targets for improving energy efficiency and reducing emissions. One called 2006 the grimmest year for **China's environment**.

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Business this week

Jan 11th 2007
From The Economist print edition

George Bush and Susan Schwab, America's trade chief, met José Manuel Barroso, the president of the European Commission, and Peter Mandelson, the European Union's trade commissioner, at the White House in an effort to push forward the stalled **Doha round** of trade negotiations. No new offers overcame the sticking points of American farm subsidies or European agricultural tariffs, but trade officials promised to continue talking. See article

US Airways increased the value of its bid to buy **Delta Air Lines** by 20%, to $10.2 billion, putting pressure on Delta's creditors to accept the offer. Delta's management rejected US Airways' initial advance last November, deciding to stick with a bankruptcy restructuring plan instead.

The next big thing

Apple held the annual jamboree designed to show off its new products. The highlight was the unveiling of the touch-screen **iPhone**, which Steve Jobs, the company's chief executive, claimed would revolutionise the mobile-communications industry just as the iPod changed the music industry. The share prices of some of Apple's putative competitors suffered. See article

Motorola's share price slipped further following last week's profit warning, which analysts blamed on the low profit margins to be had from the company's bestselling range of RAZR ultra-thin mobile phones.

The battle for the market in **high-definition DVDs** moved to new ground when **LG Electronics** introduced the first machine capable of playing both Blu-ray and HD DVD discs. Consumer-electronics firms and film studios have had to choose between the two formats, making consumers uncertain which one will triumph and causing them to delay buying new players.

Eastman Kodak said it would sell its medical-imaging unit, which traces its roots back to 1896 (soon after the discovery of X-rays), to a division of Canada's **Onex** conglomerate. The deal, worth up to almost $2.6 billion, is part of the photography company's strategy to refocus its business. It has made eight consecutive quarterly losses.

Out of fashion

Gap's share price rose by more than 7% amid speculation that its review of “brand strategies” might lead to the sale or break-up of the company, which owns the Old Navy label. The review was disclosed last week by Gap's boss when he reported poor sales leading up to Christmas.

Express Scripts filed a lawsuit with the intent of blocking **Caremark's** acceptance of a merger with **CVS.** Express Scripts has offered $26 billion for Caremark (both companies manage pharmacy services for consumers and health-care firms), but Caremark says a lower bid from CVS, America's biggest retail-drug chain, provides less risk. A merger with Caremark is attractive because of the extra weight it will bring to price negotiations with drugs firms.

China National Offshore Oil Corporation agreed to invest in a $5.5 billion Indonesian **biofuels** project, thought to be one of the world's largest. The state-owned company is looking for energy sources that could one day ease China's reliance on oil and coal. However, the news was not welcomed by environmentalists worried about the rainforest that will be cleared to make way for crops needed to produce the biofuels.

France's stockmarket regulator gave **François Pinault**, a retail and luxury-goods tycoon, a deadline of February 2nd to make a firm offer for **Suez**, a French utility company which is in the midst of a messy merger with Gaz de France.

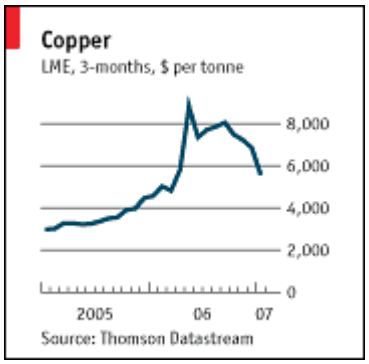
NYSE Group and three other foreign investors, including Goldman Sachs, acquired a combined stake of 20% (of 5% each) in India's biggest stockmarket, the National Stock Exchange. The move by the operator of the New York Stock Exchange underscores the trend toward consolidation among bourses. Under new rules, the Indian government allows foreign investors to take combined stakes of up to 49% of the country's stock exchanges.

In a decision that took markets by surprise, the **Bank of England** raised its key interest rate by one-quarter of a percentage point to 5.25%. Britain's inflation rate has recently crept up to its highest level in a decade. See article

Bulging fuel inventories in America on the back of mild winter weather helped to dampen the **price of oil**, which fell below $53. See article

Too much of a good thing

The **price of copper** continued to fall sharply (the metal's price has dropped by some 10% since the start of the year). Copper almost doubled its value last year, but supplies have been steadily storing up as the demand from carmakers and housebuilders in America has tapered off.



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George Bush and Iraq

Baghdad or bust

Jan 11th 2007
From The Economist print edition

America and its allies have failed in Iraq. George Bush is right to hold out against an even bigger failure

Kevin Kallaugher

Get article background

GEORGE BUSH has always been a gambler but this is his most audacious bet yet. Most Americans now believe that America has lost the war in Iraq. Only last month the Baker-Hamilton group, a bipartisan group of wise men (and one wise woman) told Congress that the situation in Iraq was “grave and deteriorating”. It recommended a managed withdrawal, dangling the prospect of the bulk of America's combat troops pulling out in early 2008. This week Mr Bush rejected that advice. He intends to defy world opinion, American opinion, congressional opinion, much military opinion and even the advice of many members of his own Republican Party by reinforcing rather than reducing America's effort in Iraq. Some will call this reckless. Some will say the president is in denial. We don't admire Mr Bush, but on this we think he is right.

It's not just about “surge”

Mr Bush is investing much hope in a plan, known as “the surge”, to secure the mixed Sunni-Shia neighbourhoods of Baghdad by injecting “more than 20,000” additional American troops on top of the 130,000 or so already in the country. His hope is that by creating an island of calm in the capital, the Americans will be able to arrest the slide into civil war and give Iraq's politicians the breathing room they need in order to settle their differences in an atmosphere of reduced violence. It is not just a military plan, says Mr Bush: it includes a dose of new economic help focused on job creation and another political push designed to help Sunnis, Shias and Kurds agree on how to share oil revenues and governmental power under the new constitution they voted for in October 2005.

It is by no means certain that the surge will succeed. The Americans have tried before to impose order on Baghdad, only for violence to flare again as soon as the troops move on (see article). Those who say this is too little, too late, may be proved right. Sectarian hatreds have deepened since that referendum of 2005, as the wildly differing reactions of Shias and Sunnis to the hanging of Saddam Hussein demonstrated. Even with Iraqi helpers, American soldiers may not be welcomed in Baghdad's neighbourhoods now that Iraqis have turned for protection to their local militias. According to one survey last September, 61% of Iraqis approve of attacking coalition forces. It may be that by barging into Baghdad's neighbourhoods, and staying there this time, the Americans will merely stoke resistance and take (and inflict) more casualties.

In short, the surge may fail. But the surge is not the most significant part of Mr Bush's speech of January 10th. If this particular plan fails, a new one will be formulated. Far more significant is the strategic message that in spite of the Baker-Hamilton report, and notwithstanding the growing pressure from public opinion and a Democrat-controlled Congress, this president will not in his remaining two years concede defeat and abandon Iraq to its fate. And this, whether it is motivated by obstinacy, denial or a sober calculation of the strategic stakes in Iraq, is a good thing.

How so? Advocates of quitting say that after losing more than 3,000 soldiers and spending more than $300 billion America has already failed and should therefore depart. But only half of this proposition is correct. It is true that America has failed. It has failed to deliver Iraq smoothly from dictatorship to democracy. Even if the situation were eventually to improve, the country that suffered so much under Saddam will remain scarred for generations by the mistakes America made after the invasion of 2003, and the loss of life they caused.

It does not, however, follow that America should go now. For as even the Baker-Hamilton report said, a premature departure would almost certainly produce greater sectarian violence and further deterioration. Without the Americans to protect the elected government and keep outside powers at bay, the prospect is for full-scale civil war and the violent intervention of Iraq's neighbours. From afar it may look as if Iraq could not fall any lower. But it easily could.

One objection to the argument that conditions would get even worse if America left is that conditions have got worse anyway. Certainly, the United States should not keep an army in Iraq just to glower at Iran and protect Iraq's perpetually squabbling politicians. Those Iraqis who welcomed the invasion—and most did—expected the Americans to depart swiftly. The longer they stay, the more they are resented and the greater the motivation of Iraqis to attack them. The point is to use America's necessarily temporary presence to create the conditions in which it becomes safer for it to depart.

Easy to say. America has built an Iraqi army, but its loyalties are divided. It has organised elections, but the politicians refuse to make the necessary compromises across sectarian lines. The Baker-Hamilton group reckoned that announcing an early departure would concentrate Iraqi political minds. But this risked turning the Americans in Iraq into lame ducks, devoid of influence as they packed to leave. The merit of surging is that this should strengthen America's still considerable influence and help it to force the Shias and Kurds to share their power (and oil) with the Sunni minority. The compliance of Iraq's leaders is crucial. If they still refuse to share power, civil war will continue and it will be time for America to give up.

Redefining success

After everything that has gone so wrong, it would be foolish to argue that Mr Bush's plan is certain of success. Even if it does succeed, this would not be “victory” in any normal sense. Iraq is likely to be violent and unstable for years to come. Contrary to what Mr Bush said this week, the dream of turning it into a democratic model for other Arabs has died.

It is a characteristic of democracies to aim high and lose patience quickly when success is elusive. The people of the United States thought they were ridding the world of a dictator who was building an atomic bomb. They hoped to be greeted as liberators, not invaders. More than the cost in soldiers' lives and squandered dollars, it is the feeling that they are doing no good that has turned them against this war. Instead of a high-minded victory, they have witnessed a debacle.

And yet there is much that America can still try to do to mitigate the dimensions of the debacle. At one end of the spectrum of bad consequences is a failed state, fought over by neighbours, breeding terrorism in the oil-rich centre of the Middle East. Another possibility is partition, of the sort that resulted in massive death and displacement during the independence struggles of India and Israel. Yet another is an Iraq in thrall to a nuclear-arming Iran that is increasingly hostile to Western friends and interests in the Middle East.

For its own sake, as well as for the sake of Iraqis, the United States should reflect hard before accepting any of those possible futures. For the present, Iraq still has an elected government that claims to want what America wants: security for all of Iraq's people and a power-sharing agreement that prevents the place from spinning apart or falling under the control of any neighbour. The job of holding it together remains daunting, but the Americans in Iraq have many resources, from the power of the gun to the power of the purse. The one they are running shortest of is support back home. For all his flaws, the lonely Mr Bush is right to resume the charge.

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European energy

Do you want Putin's paw on the pipe?

Jan 11th 2007
From The Economist print edition

The row with Russia shows how much Europe needs to liberalise its energy markets

Peter Schrank

ENERGY is so important that it must be treated differently. That is the easy and seductive argument of Europe's "national champions"—firms like E.ON of Germany and EDF of France. Only vertically integrated monopolies, they argue, can guarantee secure supply, by investing enough in local grids and capacity, and by using their might to strike advantageous long-term deals with powerful outside suppliers, like Russia.

The European Commission, rightly, sees this argument as not just self-serving but dangerous. Energy monopolies and cartels do not like deep, liquid markets that turn energy into a commodity. They like energy islands, which allow them to extract premium prices from consumers. So they do not invest in the vital interconnectors that allow energy to flow from places where it is cheap and plentiful to where it is costly and scarce. That's why it is so hard for gas-poor Germany to import from the neighbouring, gas-rich Netherlands.

Worse, the supposedly secure long-term deals negotiated by the national champions have proved flimsy. Germany, particularly under its previous left-wing government, cultivated embarrassingly close ties with Vladimir Putin's Russia in the name of energy security. But this did not stop the Kremlin casually cutting off oil supplies to Germany (and other European countries) this week as it tried to bring its errant satellite of Belarus to heel in a row over pipeline transit costs (see article). Last winter in a spat with Ukraine it cut the gas off.

Waiting for the lights to come on

Russia likes to say that it is a reliable partner—and the dispute with Belarus was soon over—but Moscow is reliable only when it wants to be. A combination of political shenanigans and a looming shortage of gas (because of bad management and under-investment) hardly makes Russia look like a dependable partner, especially if you care about consumers, not producers. Cosy deals with Russian energy giants such as Gazprom may suit their Western counterparts; but such murky, inflexible arrangements are bad for customers.

That is why the second leg of the commission's energy strategy, a strategic review also unveiled this week, is so important. It wants to use EU money and political clout to build interconnecting pipelines and power lines, such as electricity hook-ups between Germany, Poland and Lithuania and between France and Spain.

Even more importantly, the commission underlines the need for diversity of supply. One important new route is the Nabucco pipeline which aims to connect Europe with gasfields in the Middle East, Caucasus and Central Asia via the Balkans and Turkey. That bypasses Russia altogether, greatly strengthening Europe's bargaining position, regardless of how much gas it actually carries. Similarly, Europe needs to build more terminals for the import of liquefied natural gas (LNG).

The best way of achieving this is to have a competitive, liberalised market. It is no coincidence that Britain, which has gone furthest in this respect, has the most diverse supply, the strongest infrastructure (including new LNG terminals) and—over the past decade—the lowest prices.

Still, taking on the national energy champions is a formidable task. They represent some of the most powerful interests in the EU's largest countries. They are a rich source of sinecures and other comfort for the political classes. The appointment of a former German chancellor, immediately after leaving office, to the lucrative chairmanship of a Russian-German energy firm would have seemed fancifully scandalous until recently, when it happened. Gerhard Schröder heads the firm building a new undersea gas pipeline linking Russia to Germany.

The commission, to its credit, is pushing for the national champions to be broken up (see article), although it has given them an escape route: they can stay in one piece if they hive off the management of the grid to a third party. That looks a poor second best, because the giants would still own the transmission system, but it is better than nothing. The crucial test would be whether these new “independently managed” arms moved to build interconnectors. That would not just help secure supply for their hapless consumers; it would be a sign that the big utilities are prepared to compete with each other. There is a powerful disincentive for them to invade each other's islands at the moment, because the invader has to queue up to use the incumbent's transmission networks.

When EU ministers consider the commission's proposals in March, they should remember that energy is indeed important and that governments should indeed treat it differently. But that difference should be in using the state's armoury of powers to take on their own champions, not stifling competition in the name of a bogus security. Otherwise, you had better trust Mr Putin.

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Stem-cell research

Clones to the right of me, jokers to the left

Jan 11th 2007
From The Economist print edition

The study of genetic chimeras should be encouraged, not banned

Jupiter

Get article background

THERE is something about the study of embryonic stem cells that brings out the “F” word. That word, unlike the embryonic cells themselves, is nothing to do with reproduction. It is “Frankenstein”.

The reason embryonic stem cells are valued by scientists is that the cells' descendants can turn into any other sort of body cell. Moreover, if the embryo from which such cells were derived happened to be a clone of an existing person, they would not be recognised as foreign by the immune system of their progenitor and might thus be used as treatments for diseases that require the replacement of a particular, lost cell type. In this context, grant-hungry researchers usually bring up the examples of diabetes, motor-neuron disease and Parkinson's disease.

Embryonic stem-cell research has been a contentious matter in America ever since the technology to do it was developed in 1998. In 2001 George Bush restricted the use of federal money for it, on the grounds that collecting the cells involves destroying the embryo they are in. The new Congress is attempting to reverse that decision, though whether it can muster the necessary supermajority is moot. But Britain has, in most scientists' eyes, behaved rationally towards stem-cell research—overseeing and regulating what is going on, but not actually banning very much. That now risks changing.

Do no harm, and then do good

Human clones have yet to be made. Even if they were, it would be illegal to bring them to term and thus produce a cloned human being. But Britain is caught up in a kerfuffle about an even more esoteric idea, and that threatens its hard-earned reputation for hard-headedness about the field.

To make a cloned embryo would require a human egg into which a cell nucleus from the progenitor could be inserted. However, something similar could probably be made by inserting the nucleus of a human cell into the egg of another species, such as a rabbit. The nuclear genes of the result would be human, but a handful of other genes, which inhabit structures outside the nucleus, called mitochondria, would be inherited from the rabbit. Genetically mixed embryos are referred to even by scientists as chimeras, after a monster from ancient Greek mythology. Perhaps that shows a lack of public-relations nous. But researchers think the presence of a small amount of animal mitochondrial DNA in a chimera would be greatly outweighed by the ability to produce lots of them.

In Britain the job of pronouncing on whether such research should be allowed falls to the Human Fertilisation and Embryology Authority. It was supposed to make up its mind on January 11th. Unfortunately, it failed to do so, citing the need for more consultation. The British government is proposing to ask Parliament to ban the procedure, and a cynical interpretation of this non-decision might be that a supposedly independent authority is kowtowing to

government whim (see article). The government seems terrorised by tabloid cartoons of Frankenbunnies. That, though, may in the longer term be a public-relations error, as well as a scientific one.

The best test of whether something should be banned is not “is it distasteful?” but “is anyone harmed?” Tastes change. Transplanting organs from the dead to the living was regarded by some as immoral, until it started saving lives. So was *in vitro* fertilisation, until it started creating them. An embryo whose cells have human nuclei and rabbit mitochondria is not a monster. If its brief existence helps, directly or indirectly, to save lives, permission to create it should be given. And if the process is slowed down, then public opinion, which may be sceptical now, will ask in the future, “Why the delay?”

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Chinese business

Truth from facts

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The best test of China's new accounting standards: a few public disasters

Satoshi Kambayashi

SEEN from afar, China's growth is remarkable. Up close, it is bewildering and a little bit frightening. For years Chinese companies have diligently accounted for transactions in a way that was baffling to outsiders—and quite possibly to their own managers, too. This has done a disservice to China's economy and capital markets, since it has distorted company results and, consequently, the price signals needed to allocate resources. Blind to the demands of Chinese business, the country's accounting system has instead been guided by the demands of state planners.

Aware of this and in principle determined to repair the damage, China's government this month began requiring all companies listed on the Shenzhen and Shanghai stockmarkets to prepare their accounts according to something approaching International Financial Reporting Standards, the benchmark in most developed markets (see article). That is worthy of applause because it is a formal endorsement of greater transparency. Transparency should lead not just to better economic management, but also to a freer society, because it would cast light on dark corners of the Chinese economy. Those prizes, however, will be won only if China is as honest about its failures as its achievements.

As with any big reform, this shift is easy to announce and hard to carry through. The transition China has chosen is ambitious in the extreme and requires several ingredients that are in desperately short supply.

Two of these are much discussed—a shortage of experienced accountants and the lack of deep financial markets (which international reporting standards use to price assets such as property and financial instruments). Neither of these shortcomings can be rapidly fixed, so the use of the new standards is bound to be fraught with bungles and misjudgments. All the more so because China gave itself just over a year to make the transition. Many people in the accounting profession mutter that it would have been wiser for the government to take longer, as many other countries that are better able to make the change have done.

Below the line, beyond the pale

This criticism is whispered, not shouted, because the third crucial ingredient is missing. There is a deep-seated fear within China that the government and its companies will punish anyone who complains, either through direct retribution, or, just as damaging, through quiet blacklisting. The new accounting standards will not work unless people criticise and complain; but China's history does not encourage dissent. The country has never supported a truly objective, independent accounting system. Would a place that jails reporters for unearthing corruption offer any more protection to accurate accountants?

This matters because the new standards are sure to expose many problems in Chinese companies, including fraud. That is only natural after years in which anomalies have been left undetected or even concealed. “Truth from facts”

was the slogan adopted by the Chinese government after Mao's death to strip away the lies that left China a wallowing giant. Thirty years on, this remains an elusive goal, chiefly because of the most crucial ingredient in the success of the new standards: an understanding of whom the truth is supposed to benefit.

Outside China, companies broadly understand that they owe their primary duty of care to their investors. This external focus allows capital to be allocated properly. In China the abstract notion of an external investor, or a market, does not command anywhere near the same respect as do the state and the demands of the managers within the company itself. At the moment, this failure is obscured by the economic boom. Domestic and foreign investors are pouring money into the country's stockmarket, and bankers and accountants are falling over themselves to pick up lucrative business. But the good times will not last for ever.

Odd as it might seem, the best sign that China is reaping the benefits of the new standards would be a few very public corporate failures. By contrast, if in a year's time Chinese business still seems too good to be true, it probably is.

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Israel and the Jews

Diaspora blues

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Jews around the world should join the debate about Israel, not just defend whatever it does

Polaris

WHAT is a Jewish state for, and what should it be like? Jews have been debating that for 200 years. Even today, with Israel already 58 years old and taken for granted by most of the rest of the world, they still cannot agree.

The early settlers came for a variety of reasons. Some wanted to escape the stifling constraints of religious dogma and east European village communities; others thought it would hasten the coming of the Messiah. As European anti-Semitism grew, the idea took hold that Jews needed their own land as a safe haven. After the Holocaust, saving Jewish lives became the fledgling state's first priority. Soon, it acquired another role: being a potential Israeli citizen became one of the anchor points of what it meant to be a Jew.

Since then, Jews have continued debating and reshaping their own relationships to the country. In Israel secular Jews found Israeliness a handy substitute for religious observance. Some religious Jews, for their part, revived the previously fringe creed of messianic Zionism, holding that to settle in all the biblical land—including the lands Israel captured after 1967—is a God-given duty. To others, the ultra-Orthodox, a Jewish state should spend as much as possible on subsidising Jewish learning and maintaining piety. And of these groups there are countless splinters and crossbreeds.

Meanwhile, diaspora Jews have developed an even more eclectic mix of Jewish culture and attitudes to Zionism (see article). And that is partly because, as the threat of genocide or of Israel's destruction has receded, a growing number of diaspora Jews neither feel comfortable with always standing up for Israel, nor feel a need to invoke Israel in defining what makes them Jewish.

Yet the big Jewish diaspora institutions have not caught up. Their relationship with Israel is still based mainly around supporting it in times of crisis and defending it from critics. This is true of the big umbrella groups for Jewish communities, but especially so of the pro-Israel lobby groups in America, formed to influence American foreign policy in Israel's favour. Often these lobbies have ended up representing not Israel but its right-wing political establishment, with American defenders of Israel accusing critics of being “anti-Semitic” for saying things that are commonplace in Israel's own internal debate.

My country, but not right or wrong

Their attitude persists partly because Israel was indeed much more vulnerable when the lobbies were founded; partly because the lazy way to defend Israel is to suggest that its critics, even legitimate ones, are anti-Semites; and partly because the pro-Israel lobbies have formed an unholy alliance with evangelical Christian groups who believe, like the religious Zionists, that the ingathering of the Jewish exiles will bring forward Judgment Day. In their fervour, these evangelical Christians are more uncompromisingly Zionist than most Jews. That they also believe that Judgment Day will entail the destruction of Israel and the deaths of a great many Jews does not seem to bother the Jewish lobbies;

that, after all, is the theology of the future, and their job is the politics of today.

This knee-jerk defensiveness of Israel does not help the Jewish diaspora, at least in terms of keeping young Jews from leaving the faith. Some find the uncritical attitude to Israel distasteful; others simply find Israel irrelevant. Some strike out on their own, finding new and creative ways to explore their Judaism. But many are simply drifting away.

The tendency to stand by Israel right or wrong brings a second problem. It locks diaspora Jews out of the fateful and often bitter debates that rage inside Israel itself. Israel is an increasingly divided society. Secular and religious Jews used to have more beliefs in common, albeit for different reasons (eg, holding on to the occupied territories, whether for security or for religious redemption), but for decades their interests have been diverging. They disagree on the most basic questions: borders, who is a Jew, the role of religion, the status of non-Jews. Lately the traditional political boundaries have been melting down too. Israeli Jews swim in a sea of conflicting ideas about who they should be. Unless they agree on that, they cannot ultimately resolve their relationship with the Palestinians, including the Palestinians who are Israeli citizens.

Helping Israel should no longer mean defending it uncritically. Israel is strong enough to cope with harsh words from its friends. So diaspora institutions should, for example, feel free to criticise Israeli politicians who preach racism and intolerance, such as a recently appointed cabinet minister, Avigdor Lieberman. They should encourage lively debate about Israeli policies. Perhaps more will then add their voices to those of the millions of Israelis who believe in leaving the occupied territories so that Palestinians can have a state of their own, allowing an Israel at peace to return to its original vocation of providing a safe and democratic haven for the world's Jews.

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Extending American health care

Sensible medicine from the states

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America's governors want to expand health coverage. The federal government should help them

IF YOU had to sum up the problems of American health care in two words, they would be “cost” and “coverage”. The country spends 16% of its GDP on health, around twice the average of other rich economies. Yet a sixth of the population lacks medical coverage. Most Americans receive health insurance through their employer. The government picks up the bill for the poor and elderly. But an estimated 47m people fall through the cracks—a number that is rising as premiums soar.

That so many people should be without medical coverage in the world's richest country is a disgrace. It blights the lives of the uninsured, who suffer by being unable to get access to affordable treatment at an early stage. And it casts a shadow of fear well beyond, to America's middle classes who worry about losing not just their jobs but also their health-care benefits. It is also grossly inefficient. Hospitals are forced, by law, to help anyone who arrives in the emergency room. Since those without insurance coverage usually cannot pay for that care, the bill is passed on to everyone else, driving up premiums. Higher premiums, in turn, swell the ranks of the uninsured.

Breaking that spiral would be a big step towards fixing American health care. And it is one that politicians at last seem ready to take. Not in Washington, DC, where reform is still stalled by an ideological stalemate between conservatives, who want more consumer choice, and those on the left, who think more government intervention is the answer. Instead, state governors are taking the lead (see article). This week Arnold Schwarzenegger laid out a plan for universal coverage in California, where 6.5m people, or almost 20% of the population, lack medical insurance. Massachusetts passed a similar plan last year, led by Mitt Romney, then governor and now a Republican presidential candidate. From Wisconsin to West Virginia, governors want to cut the ranks of the uninsured. Some are pushing reforms that might actually work.

The most promising idea is compulsion. Massachusetts was the first state in America to propose that every resident must have health insurance, or face a fine. Mr Schwarzenegger has proposed something similar. The logic is simple. Forcing people to buy health insurance eliminates free-riders, broadens the insurance risk pool and helps contain costs. No longer can the young and healthy gamble against needing a doctor, safe in the knowledge that they can free-load off those paying insurance if they find themselves in hospital.

Compelling people to buy insurance coverage will work only if several other conditions are met. Insurance markets need an overhaul so that it becomes easier for individuals to buy basic “bare-bones” coverage and harder for insurers to deny access to older workers or the chronically sick. Poorer people will need subsidies to pay their premiums. Above all, costs must be controlled; otherwise those subsidies will become prohibitively expensive and the government's programmes for the old and the poor will bust the federal budget.

In the ambulance together

States cannot meet these conditions alone, not least because the federal government foots far more of the health-care bill: Mr Schwarzenegger's numbers rely on $5 billion a year of new federal money. Expanding health coverage must be a joint effort, just as welfare reform in the early 1990s was pioneered by the states but largely paid for by the federal government. George Bush and the new Democratic Congress ought to loosen restrictions on how federal health-care money is spent and offer more cash to the boldest reformers. Federal reforms, in turn, should be focused on cost control, the area where the various state plans are weakest. Medicare and Medicaid ought to be leading the charge for cheaper treatments.

The federalist momentum may yet fizzle. Massachusetts is a small state, and Mr Schwarzenegger's ideas are far from being law. But after years of stalemate, a couple of ambitious governors have given America's health-care debate a jolt. They deserve help from Washington, DC.

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On ethical food

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Organic matter

SIR – Your report on ethical food stressed the fact that consumer decisions alone cannot preserve the environment, reform world trade or encourage development ("Voting with your trolley", December 9th). We agree. However, the billions of individual choices that consumers make each day do have a cumulative impact on the well-being of people and the planet. We cannot make large-scale improvements without involving popular majorities and one of the best ways to do this is to invite people to think about their decisions and vote with their wallets. Shopping for ethical-food labels is just one of many types of individual actions that make a difference and the impressive growth of such products is evidence that this is working.

Sustainable consumption involves balancing the impacts of our lifestyles—recycling, conserving energy, reducing our travel—as well as participating in elections. Certified-food products may be no panacea for the world's problems, but our members are helping to set the agenda for widespread change while producing goods that are certified to the highest social and environmental standards.

Lucy Glover
International Social and Environmental Accreditation and Labelling Alliance Secretariat
London

SIR – Among a number of misleading assertions made in your attack on ethical food was the statement that "no till" farming appears to be "the most environmentally benign form of agriculture". This inaccurate claim refers to the low levels of energy used, as "no till" avoids inverting the soil. However, heavy machinery and herbicides are required to prepare a seedbed, and with several applications of fertiliser and sprays the field will see far more machinery use than any similar organic crop. Nor is "no till" sustainable—the build up of persistent weeds soon requires a return to ploughing. The system is not suitable for many soils and is used on only around 10% of Britain's arable crops. All organic crop rotations contain three to four years of no ploughing because grass leys use the sun's energy to fix nitrogen for subsequent crops in place of oil-based artificial fertiliser. In addition, farmland wildlife benefits far more from organic farming, as numerous peer-reviewed studies have now confirmed.

You also made much of the thoroughly discredited claim that organic farming requires more land to be brought into cultivation. Recent research by Danish and American scientists suggests that if all agriculture was organic, the slight decrease in yields in the northern hemisphere would be more than matched by overall increases elsewhere, leading to a slight increase in total food production. Long-term trials in the United States show organic yields matching those from non-organic systems, with organic farming outperforming non-organic in drought years. The fact is that in a world of increasing scarcity of fossil fuels, organic farming provides the only environmentally, or economically, sustainable system for feeding the world.

Peter Melchett
Policy director
Soil Association
Bristol

SIR – You stated that Fairtrade is a subsidy that encourages overproduction. In fact, Fairtrade is a voluntary model of trade that brings consumers and companies together to offer organisations, that represent small farmers and hired labour, a price for their produce that covers the cost of sustainable production and provides a sustainable livelihood. Fairtrade is a market-responsive model of trade: the farmers receive the Fairtrade minimum prices and premiums only if they have a buyer willing to pay them and many producer groups also sell in the conventional market. Our experience is that producers use their additional income from Fairtrade to improve their homes, send their children to school and improve the quality of their existing crop, rather than to increase production.

Luuk Zonneveld
Managing director
Fairtrade Labelling Organisations International

Bonn, Germany

SIR – Ethically minded consumers can best save the planet by avoiding meat, the process of which, such as providing food for livestock, uses energy and resources. Researchers from the University of Chicago have found that the average American meat-eater generates nearly 1.5 tonnes more carbon dioxide per person per year.

Heather Moore
Norfolk, Virginia

SIR – Allow green groups their moments of hyperbole. By exaggerating the social and environmental benefits of ethical production they provide some much-needed balance to big food and drink companies, which have shown remarkably little leadership on such critical social issues as consumer health and global warming. The food zealots provoke these lumbering companies into action. One result is that the clear blue water between organic and "conventional" farming is narrowing.

David Hughes
Emeritus professor of food marketing
Imperial College
London

SIR – At the last election I voted Green because the party is strongest on public-transport issues. My mother voted Conservative, because she always has, and my neighbour voted Labour because she felt sorry for the prime minister. I am left unconvinced of the efficacy of the political statement I made. Voting is important, of course, but it is a blunt tool that we should use to favour politicians who listen. We also need to give them something to listen to and the way we consume sends a focused signal about what is important to us. Ethical shopping, like politics, may not be a simple activity, but let's not use this as an excuse to rubbish the pursuit of our goals.

David Martin
Much Birch, Herefordshire

SIR – Not once did you mention "taste". Have you considered that people might buy local strawberries because there is a better chance that they will taste like strawberries and not like cucumbers?

Tudor Birsan
Vienna

SIR – It is not clear to me why anyone needs to eat a tomato in winter, whether it is from Spain or from a local greenhouse. Eating with the seasons used to have meaning, but seems to have been lost in our current hurried, global approach to life. We view the ability to eat any food at any time of year, irrespective of its natural season, almost as a birthright. But as many of us have experienced, tomatoes in winter never quite taste the same as those in summer.

Judson Berkey
Zurich

SIR – The smallest garden or patio full of vegetable pots can produce enough to supplement food bought at a supermarket. This home-grown food can be organic, if one desires, and is definitely "locally produced". And what's more, transportation costs are negligible: just a short walk from the garden to the kitchen.

Jennifer Rodina
Paxson, Alaska

SIR – An important element motivating acolytes of the ethical-food movement is snob appeal. Now even something as prosaic as grocery shopping can display someone's financial and educational status.

Bryan Young
Dallas

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America in Iraq

The president's last throw

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From The Economist print edition

Getty Images

George Bush announces one more push for "victory". Is he just reinforcing failure?

Get article background

HAIFA STREET evokes more dread than almost any other place in Baghdad. Its long gully of battle-scarred buildings, leading almost to the gates of America's fortified Green Zone, encapsulates the city's violent recent history. As a young man, Saddam Hussein found refuge in the area; later, he housed many of his top loyalists there. When the dictator was deposed, it became a stronghold of Sunni insurgents. American troops called it "Purple Heart Boulevard", expecting to get killed or wounded on it.

After Iraq's first free elections in January 2005, a series of offensives brought Haifa Street under the control of Iraq's new army. Children played there, and the insurgents' graffiti were covered with slogans such as "Long live the National Guard". These days, though, the boulevard is again one of Baghdad's bloodiest battlegrounds. The anti-coalition insurgents have been joined by sectarian death squads whose aim is the ethnic cleansing of mixed Sunni and Shia areas.

On January 6th, for instance, police found the bodies of 27 people, probably Shias, with their throats slit or shot through the head, dumped in a cemetery near Haifa Street. And for the past week more than 1,000 American and Iraqi soldiers, backed by helicopters and jets, have been battling it out there.

After expending so much blood, sweat and treasure—more than 3,000 soldiers killed, more than $300 billion spent—most Americans have lost hope and want to leave Iraq. Not so George Bush. He is convinced that "victory" is not just possible but essential, and that the Middle East can still be refashioned by democracy.

In a nationally televised address on January 10th he announced that he would send more than 20,000 extra troops to Iraq, mostly to help Iraqi forces in their new campaign to secure Baghdad. Some 4,000 additional troops would be destined for the violent western province of Anbar. American units will be "embedded" within Iraqi formations to help them hold neighbourhoods wrested from armed groups. The new military effort will be bolstered with economic, political and diplomatic measures. American commanders and officials will be given greater authority to spend money, a "reconstruction co-ordinator" will be appointed in Baghdad, and the Iraqi prime minister, Nuri al-Maliki, will be held firmly to a set of political "benchmarks".

Mr Bush turned down bipartisan calls to woo Iran and Syria. Instead, he accused those countries of instigating the violence in Iraq. He confirmed the deployment of an extra carrier strike group and Patriot anti-missile batteries to the Middle East—a clear signal that he is not only willing to raise the stakes in Iraq, but is also giving himself the option of a military strike to halt Iran's suspected development of nuclear weapons. And underlining his promise to stop interference by Iran and Syria, and to destroy their networks, on January 11th American troops raided an Iranian consular office in northern Iraq.

Mr Bush admitted he had made “mistakes”, accepted that more Americans were likely to die, and told his audience not to expect a “surrender ceremony on the deck of a battleship”. Still, the war was part of “the decisive ideological struggle of our time”. Failure would bring catastrophe: the fall of the Iraqi government, “mass killings on an unimaginable scale”, the strengthening of radical Islam across the Middle East, danger for moderate governments, the creation of a terrorist safe haven and an Iran emboldened to build atomic bombs.

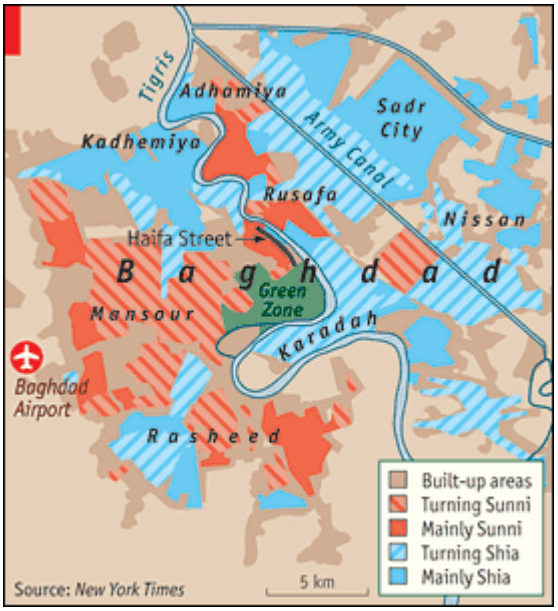
In deciding to redouble the war effort, Mr Bush now finds himself almost alone. General John Abizaid, the head of Central Command that oversees American strategy in Iraq and Afghanistan, all but rejected the idea of a “surge” of forces two months ago. He told a Senate hearing that raising troop levels by 20,000 would have only a “temporary effect” on security. But it would delay the day Iraqi forces could take control and, if prolonged, would place an unbearable strain on American ground forces that are already overstretched.

Mr Bush has always said he would defer to his military commanders, but this time he did not take their advice. Instead, he dismissed General Abizaid and reshuffled key figures in his Iraq team. General John Casey, the commander in Iraq, has been booted upstairs to become the army chief of staff. The ambassador to Baghdad, Zalmay Khalilzad, has been sent to speak for America at the United Nations.

Mr Bush also ignored the managed withdrawal advocated by the Iraq Study Group, a bipartisan commission co-chaired by James Baker, a former secretary of state. The strategy he plumped for was “surge”, an idea proposed by the American Enterprise Institute (AEI), a hawkish think-tank, and strongly backed by Jack Keane, a retired four-star general and former deputy chief of staff of the army. General Keane was the force behind an AEI report called “Choosing Victory: A Plan for Success in Iraq”, written by Frederick Kagan, a military academic, and issued on January 5th. This called for an even bigger surge of about 35,000 troops. Security, Mr Kagan wrote, was the precondition for a political solution, not the other way around. Only by offering credible protection could the Americans undermine the militias.

The heart of the matter

The critical terrain is Baghdad: Iraq's most populous city, with 6m inhabitants of all sects (see map). It is both a main target for insurgents attacking coalition forces, and the centre of the sectarian war that has broken out since Sunni extremists blew up the Golden Mosque in Samarra, a Shia holy place, in February 2006.



The Americans have long pursued an “oil-spot” strategy—establishing areas of stability that would, with time, expand. These tactics have had success in some areas, particularly rural towns where American forces can monitor access routes and where tribal chiefs know what is happening. In Baghdad, though, any calm is short-lived. Last summer's joint American-Iraqi operation, codenamed “Together Forward”, was followed by the most vicious round of killing yet seen in the city.

Now, with the surge, “this is going to be completely different,” predicts General Keane. In the past, he says American and Iraqi forces could take only the first step of the three-stage strategy called “clear, hold, build”. They would clear insurgents out of parts of Baghdad. But the Americans lacked the numbers, and the Iraqis lacked the ability, to “hold” these areas, let alone rebuild them. With the promise of substantially more troops—five more American brigades in Baghdad to add to the four currently there, and the promise of 18 (smaller) Iraqi army and police brigades—General Keane says American forces will not only clear neighbourhoods of insurgents, but also stay behind and make sure that economic development follows immediately. Had these sensible tactics been followed in 2003, admits the general, the Americans would not be facing their current troubles. Still, he insists, it is not too late to

change.

The man charged with implementing the new policy is General David Petraeus, who replaces General Casey. A former commander of the 101st Airborne Division that was deployed to Mosul, General Petraeus took charge of setting up the Iraqi army. He later led the training centre in Fort Leavenworth, Kansas, from where he co-authored the new American counter-insurgency field manual, published jointly by the army and marines last month.

This new doctrine calls on America's warriors to perform the novel task of “armed social work”. Rather than trying to kill as many terrorists and insurgents as possible, the troops' priority should be to win the support and trust of civilians, and thereby obtain the intelligence essential to identify the enemy. Counter-insurgency requires “vast resources” of manpower and much stamina in America, says the manual. Decades after expunging the idea of “small wars” from their textbooks after the trauma of Vietnam, American officers are relearning the lessons the hard way.

At the heart of counter-insurgency doctrine is the idea of winning over the uncommitted “passive” majority. But after so much killing, and the shattering of hopes, there may not be many fence-sitters left in Baghdad. Iraqi polls are unreliable, but they show a trend of growing support for killing Americans. One survey in September found that 61% of Iraqis—including a majority of Shias and almost all Sunnis—approved of attacks on coalition forces.

More American troops may or may not bring greater security. But they will offer more targets for insurgents to shoot at, and reinforce many Iraqis' resentment of the occupation. More civilians could get killed, whether by error, carelessness, or worse. One British general with experience in Iraq believes no amount of extra American troops will solve the problem. “It may look quiet when the Humvees go past during the day, but the militias will be back at night, murdering and intimidating.”

Feeling the strain

By the counter-insurgency manual's own estimate, there have always been too few forces in Iraq to stabilise it successfully. The manual recommends a saturation strategy of 20-25 members of security forces for every 1,000 civilians: the kind of ratio used when NATO soldiers entered Kosovo in 1999. For a country the size of Iraq, that means 535,000-670,000 soldiers and policemen.

The American-led coalition invaded Iraq with fewer than 200,000 men and women. Today there are just 150,000 American, British and other troops. Even counting Iraqi security forces, the total still falls short at 473,000—and that ignores their weaknesses. Many members of the Iraqi security forces are routinely absent, the army is only partly capable of carrying out its tasks, and the police force is often corrupt and infiltrated by militias.

The surge, then, may be too small to make a decisive impact and yet too large for the American armed forces to bear. The tempo of troop rotations in Iraq and Afghanistan is already in breach of the Pentagon's guidelines: two years at home for every year of operations abroad for the full-time army, and six years' relief for reserve citizen-soldiers who make up nearly half the current strength in Iraq. Equipment is being lost in battle or worn out much faster than anticipated. A bigger army would help, but it will take years to recruit and train new combat units.

Nobody knows how much strain the ground forces can bear. Commanders worry about any sign of damage to morale, such as anecdotal evidence of rising divorce rates among servicemen. A poll in the *Military Times* last month found falling support for the war. Just 41% approved of the decision to go into Iraq, compared with 56% the previous year. Last June Ehren Watada, an army first lieutenant, became the first commissioned officer to refuse to serve in Iraq. He said the war was “not only morally wrong but a horrible breach of American law”. He will be court-martialled next month.

Nevertheless, Mr Bush has decided to stretch the army a bit more. The surge will be achieved by extending the service of troops in Iraq, speeding up the deployment of forces scheduled to arrive later this year, and calling up a fresh batch of reservists for duty in 2008.

General Keane says such a surge can be sustained for up to two years. But he recognises that it will not allow America to pacify the whole country, or even the whole of Baghdad, “simultaneously”. Instead he proposes to act “sequentially”, starting by securing the mixed Sunni-Shia neighbourhoods of Baghdad to show even-handedness, and then moving to the towns surrounding the capital before attempting to take on the most important Sunni and Shia strongholds. The risk is that, as in the past, the insurgents will just wait for the Americans to go away, or shift the killing to areas where there are fewer soldiers.

Mr Bush said that Iraqi and American forces will have a “green light” to go anywhere in the city. But General Keane thinks that they would be wise for the moment to avoid Sadr City, the bastion of Muqtada al-Sadr, a firebrand Shia cleric and one of Iraq's most powerful figures. Although his Mahdi Army is a prime instigator of the violence, General Keane says a direct confrontation would be too risky.

The trouble with politics

Mr Bush's plan is to create some “breathing space”, bring down the violence to a level that the Iraqi security forces can manage and give them time to become more proficient. But to work, the military campaign has to be intimately bound up with economic and political progress. And the rub is in the politics.

The president's “benchmarks” for the Iraqi government—sharing oil revenues fairly, spending $10 billion on reconstruction, holding provincial elections, revising the federal constitution and the “de-Baathification” process—are desirable. But they have mostly been heard before, and Mr Maliki's government has failed to achieve them. In any case, big political issues may matter little to gunmen who are often fighting to control the local market, the local petrol station or the local street.

America is losing its means of influence. Iraq has made its transition to full sovereignty, and elections have enshrined the country's ethnic divisions in its politics. The downtrodden Shias, including followers of Mr Sadr, now so dominate the government that it is no longer seen as a neutral arbiter. Despite American objections to the manner of Saddam Hussein's execution last month, it went ahead anyway amid shouts of “Muqtada! Muqtada!”

AP

Who are the sitting ducks?

America's real leverage over the Iraqi government is the threat to pull out and abandon it to its fate. That is what Mr Baker's study group advocated. But Mr Bush cannot bring himself to do that. Could the Democrat-controlled Congress force him to it, by denying him the money to wage the war?

Congress has used its power of the purse only in the most extreme circumstances, such as in the last couple of years of the Vietnam war. Doing so now would be rife with political dangers—allowing the Republicans to accuse the Democrats of overstepping their constitutional authority and, perhaps, enabling them to blame Democratic tight-fistedness if and when the war is lost. For the moment, the Democrats are considering only a symbolic non-binding vote of protest that would, in the words of Senator Joseph Biden, “demonstrate to the president he's on his own”. There could also be moves to block the increase in troop numbers while supporting the forces already in Iraq.

The unpopularity of the war is already reshaping the 2008 presidential race. Many Republicans, too, are expressing doubt about the war. The only Republican candidate to give vocal support to the “surge” is John McCain, the front-runner, but his hawkishness may hurt him. “If it destroys any ambitions I may have, I'm willing to pay that price gladly,” he said on January 5th. Most other candidates are either steering clear of the war or opposing it forcefully. Hillary Clinton, the Democratic front-runner, who had backed the war, said that Mr Bush would “continue to take us down the wrong road, only faster.”

John Edwards, who was John Kerry's running-mate in 2004, says the troops should be brought home. If he does well in the primaries, he could force the rest of the field to adopt a more anti-war stance. But in any event, the uproar in Washington is sending a powerful message to the insurgents on Haifa Street: no matter how many soldiers Mr Bush sends to Iraq, they may not stay very long.

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Correction: Ban Ki-moon

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In our Briefing on the United Nations last week we stated that Ban Ki-moon, the new secretary-general, was a member of a Christian-based "group without a church". He is not. Mr Ban does not belong to any church or religious group, believing that faith is an individual matter. We apologise for our error.

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Health care and the states

The federalist prescription

Jan 11th 2007
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Corbis

Extending health care to the uncovered, one state at a time

WITH his leg injured in a recent skiing accident, Arnold Schwarzenegger, California's governor, this week announced a plan that could change the terms of America's health-care debate. The Republican in charge of the country's most populous state, where 6.5m people, almost one resident in five, lack medical insurance, said he wants to introduce universal health-care coverage.

His recipe is a combination of insurance-market reform, government subsidies and—most important—compulsion. “Everyone in California must have insurance,” Mr Schwarzenegger argued. “If you can't afford it, the state will help you buy it, but you must be insured.”

Although the details are still sketchy, Mr Schwarzenegger's plan is very like another pioneering health-care reform that was successfully championed by another Republican governor in a strongly Democratic state. In April 2006 Mitt Romney, then the governor of Massachusetts and now a leading Republican presidential candidate, agreed on a plan for universal health-care coverage with the state's Democratic legislature. It too made health insurance mandatory, and it also included insurance reform and subsidies.

Massachusetts, and now California, have the boldest plans. But they are not the only states concerned with reducing the ranks of the uninsured. Illinois, Tennessee and Pennsylvania have pledged to insure all children. Half a dozen other states have official commissions charged with producing comprehensive reform plans this year. Could the states jump-start American health-care reform?

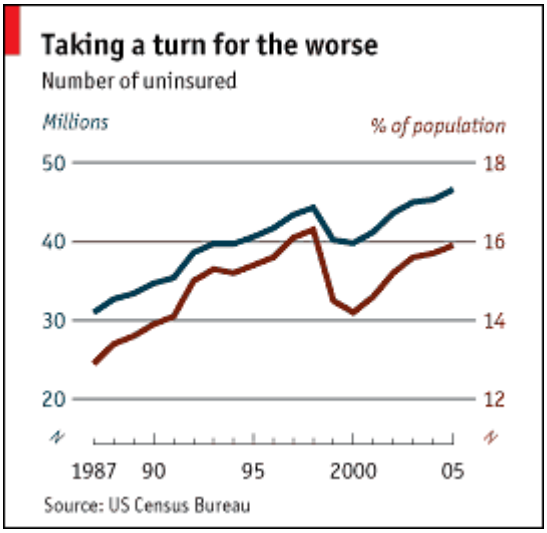
America has 47m people without medical insurance, around one sixth of its population. No one doubts that this is both morally vexing and economically inefficient. The uninsured get too little preventive medicine, but hospitals are, by law, obliged to offer them (expensive) emergency care, thus raising costs for everyone else. And as health-care costs have risen, and premiums with them, the ranks of the uninsured have grown (see chart).

Unfortunately, America's national debate about health-care reform has been stalled for more than a decade by a combination of ideology and political cowardice. The left argues that the solution is more government intervention; the right espouses deregulation and consumer choice to slow cost increases and so make insurance more affordable. Both sides are cowed by the memory of Hillary Clinton's disastrous failure to rewrite the rules of American medicine in 1994.

State governors have less ideological baggage. States have often been America's policy laboratories, pioneering changes that become national models. In the late 1980s and early 1990s, for instance, Wisconsin led the revolution in welfare, the system of government handouts aimed mostly at poor single mothers.

But health care has proved trickier. Massachusetts tried and failed to

force employers to provide health insurance two decades ago. One problem is that the federal government controls most of the money. Medicare, the giant health scheme for the elderly, is federally financed and run. Medicaid, the scheme for the poor, is organised at the state level but co-financed with Uncle Sam. All told, state governments pay for only about 13% of America's medical spending. If you include the huge tax subsidies for employer-provided insurance, the federal government's share is almost 40%.



Nonetheless, three things suggest that state-led innovation has greater promise now than in the past. The first is the Schwarzenegger-Romney effect. Now that America's biggest state has put universal coverage at the top of its political agenda, the feds will have to take notice. Mr Romney will also ensure that health-care reform looms large in the presidential race that is already under way.

Second, the big federally-funded State Children's Health Insurance Programme (SCHIP) is up for renewal this year. Introduced a decade ago, it gives the states $5 billion in grants a year to help children whose families are just above the poverty line (and hence ineligible for Medicaid) get access to health care. The money comes from Washington, DC, but states can spend it as they wish. Many Democrats want to expand SCHIP. And third, several congressmen are now pushing laws that would explicitly encourage state experimentation by making it easier for states to innovate using federal money and, in some cases, by offering more money.

Bay State experimenting

A lot depends on whether the states' reforms actually appear to work. All eyes are on Massachusetts, since it is the first state actually to enact (rather than merely propose) comprehensive reform, particularly the mandatory purchase of insurance. From July 2007 every resident must have health insurance, or face a $1,000 fine. People with incomes up to three times the federal poverty threshold (almost $60,000 for a family of four) will get subsidies to buy insurance. Firms with more than ten workers must offer employees a health plan or pay the state a “contribution” of up to $295 per employee.

Massachusetts has also revamped the insurance market for individuals and small businesses. A new clearing house, the “Commonwealth Connector”, is designed to offer more choice and cheaper plans for those outside big firms. People in this “Connector” will be able to offset their health insurance against tax, a perk until now available only to employers.

Forcing everyone to buy insurance is probably the only way to avoid the “adverse selection” problem that plagues health-insurance markets. Younger workers in good health avoid buying coverage, leaving higher-risk people in the insurance pool, thus driving up premiums. And if the uninsured workers fall really ill, they become free-riders on the others, since hospitals are required to treat them at public expense: had they been treated earlier, they might have been cured more cheaply.

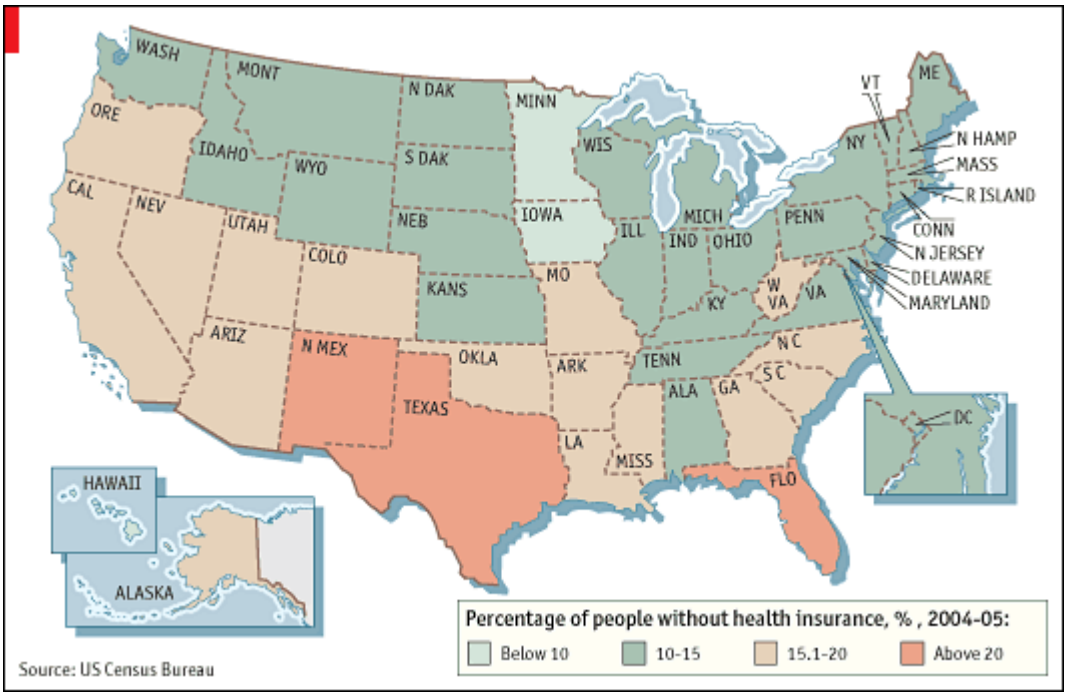
Massachusetts's success will depend on whether its mandate actually prompts people to buy insurance. To avoid political uproar when the law kicks in, the state has left itself plenty of wriggle room. The individual mandate will not apply unless “affordable” insurance is available. But the greater the wriggle room, the less effective the mandates will be.

Experiments elsewhere in New England suggest that the voluntary route to universal health-care coverage is costly and difficult. Maine and Vermont are both trying to insure all their citizens. Both have rejigged their insurance market for individuals and small businesses. Both are offering subsidies to poorer people. But neither compels anyone to buy insurance. Vermont's plan was introduced less than a year ago. But Maine's plan has been up and running since January 2005, and its results have been disappointing. According to Cristy Gallagher of the New America Foundation, a Washington, DC, think-tank, only 15,000 people have enrolled so far. The state is a long way from covering its 130,000 uninsured citizens, while the subsidies are proving costlier than expected.

Besides, although obliging everyone to have health insurance can compensate for some of the extra cost of covering the uninsured, it does not offset it entirely. Massachusetts could push for universal coverage in part because only 10% of its citizens lack health coverage. The state was also blessed with lots of money to fund its reforms: an annual $385m pot of federal Medicaid funds, as well as $600m a year that was already being used to help reimburse hospitals for treating the uninsured. Most other states have less money and greater need. Covering California's 6.5m uninsured, for instance, will cost the public purse around $12 billion a year. Mr Schwarzenegger expects $5 billion of that money to come from the federal government. He plans to raise the rest from a mish-mash of taxes on employers, doctors and hospitals.

Going for kids

The cost of expanding health coverage explains why many states have set themselves less ambitious goals than universal insurance. One popular and attainable one is to insure all children. Only about 3% of children are both uninsured and ineligible for help under either SCHIP or Medicaid. Several states are simply expanding their SCHIP schemes to cover children higher up the income scale. Illinois allows any parents to buy into SCHIP if their children have been without health insurance for more than a year. Pennsylvania offers free coverage to families who earn up to twice the official poverty rate.



Other states, however, are concentrating on the much larger problem: low-paid workers in small firms. Only 50% of small businesses now offer health insurance, down almost 10 percentage points since 2000. Several governors are trying to stem this decline by subsidising bare-bones health insurance for these people.

Arkansas, for instance, has launched a scheme in which the state subsidises the premiums of poor workers in small firms provided every worker is enrolled. To control costs, the coverage is limited to six doctor visits and seven days in hospital a year, and two prescriptions a month. New Mexico has a similar subsidised deal for small employers with a $100,000 annual limit on coverage. Tennessee has set the premium rather than the coverage, creating an insurance plan that costs $150 a month, of which it will pay $50, though just what the plan will cover is not yet clear. The hope is that people will prefer cheap, if limited, health care to none at all.

It is tempting to pour cold water on all this state activity. The most radical innovation—forcing people to buy health insurance—may prove unenforceable. Will Massachusetts's new Democratic governor, Deval Patrick, really risk levying heavy fines on low-paid workers without health insurance? And even if the idea works at first, the model will surely collapse unless the ever-growing cost of treatment can be brought under control. As the plan's architects admit, that was not the main priority.

For now, however, such cynicism is misplaced. America's governors are focusing on an important issue that Washington has ducked for too long, and, in several cases, are tackling it with bold new ideas. Now it is up to President Bush and the new Democratic Congress to respond.

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Evangelicals

Love, love, love

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Says the son of a preacher man

Get article background

JAY BAKKER is an unusual kind of preacher. He has full-sleeve tattoos, a lip ring, and an extensive collection of T-shirts commemorating punk bands. He preaches at Pete's Candy Store, a hipster bar in Brooklyn. He especially wants to reach the kind of people you might find in a bar on a Sunday afternoon—punks, skaters, drinkers. He is wary of Christianity as an institution. “Religion kills,” is his ministry's motto. “All I'm trying to do is love people,” he has said.

Mr Bakker's cynicism is warranted. His parents, Jim Bakker and Tammy Faye Bakker, were famous televangelists of the 1980s. They used hand puppets to act out the Gospel and raised a fortune in donations for their ministry, the PTL Club. (The initials stand for “Praise the Lord.”) Along the way, the father diverted millions of dollars for his personal use and had an affair with a church secretary. He was convicted of conspiracy and fraud, and Jerry Falwell called him “the greatest scab and cancer on the face of Christianity in 2,000 years of church history”.

Even before the scandal, young Jay had his troubles. He was fat and bullied. His mother kept a special “spanking spoon” in her handbag because ordinary wooden ones were not up to the task. But his father's disgrace took a serious toll. Jay began drinking and using drugs, and dropped out of high school. Eventually he sobered up. In 1994 he co-founded a ministry of his own, Revolution. The church now has ministries in Georgia and North Carolina as well as in New York.

Mr Bakker's liberal views put him at odds with many of his fellow Christians. His decision to come out in favour of gay marriage, for example, caused consternation. “You'll be judged tenfold,” warned one congregant. But he has drawn attention to the variety among American evangelicals.

Compare Jay Bakker with Ryan Dobson, for example. Mr Dobson, the son of James Dobson, founder of the vastly influential Focus on the Family, also has a lot of tattoos and preaches to skaters. But Mr Dobson is much more socially conservative, and his first book, “Be Intolerant”, calls for Christians to fight sins such as cohabitation. Mr Bakker's church may never amount to a revolution, but it is a counterweight to the harsher sorts of fundamentalism.

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Restructuring intelligence

A bad job

Jan 11th 2007 | WASHINGTON, DC
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Knitting together 16 spy agencies is no fun for anyone

AP

Get article background

IT IS not certain that being director of national intelligence is the worst job in Washington, DC. That distinction probably belongs to the man who has to clean out Ted Kennedy's spittoon. But it is certainly close to the top of the list. So close to the top that John Negroponte is abandoning the job for the number two position in the State Department.

That means leaving a cabinet-level post with a direct line to the president (not to mention briefing him personally six times a week) for a deputy's position; it may also mean having to deal with the issues that his new boss, Condoleezza Rice, would rather not handle herself, like Iraq.

Mr Negroponte's proposed successor, Mike McConnell, is a respected intelligence specialist who spent his career in naval intelligence and headed the National Security Agency in 1992-96. But whether he possesses the black arts necessary for his new job is open to question. He will not only preside over a sprawling empire of 16 spy agencies and 100,000 spooks but also be charged with making sure that they all work smoothly together.

Many intelligence specialists, including John McLaughlin, the former number two at the CIA, believe that Mr McConnell will inherit an impossibly sticky wicket, as he wrote this week in the *Washington Post*. The structure was “cobbled together”, he says, in a few weeks during a heated election campaign. The director of intelligence lacks the formal power to bring the various agencies to heel (Donald Rumsfeld was particularly successful in keeping control of the Pentagon's intelligence apparatus). The director also has to report to as many as six different congressional committees. This botched structure—accountability without power—is responsible for the fact that so many other people have turned down the job, including Robert Gates, the new secretary of defence.

Mr Negroponte's departure after a mere 18 months in the job is a further blow to an intelligence world that has been in turmoil since George Tenet's departure from the top job at the CIA in 2004. Stability is not a good in itself: the old world produced endemic infighting between the CIA and the FBI and the “slam dunk” verdict on Iraq's weapons of mass destruction. But instability is a bad backdrop for building a new institution.

The instability could prove chronic. The director has not had a deputy since Michael Hayden left to run the CIA last spring. Congress is putting more pressure on his department with its promise to implement the 9/11 commission's report in full. And Mr Negroponte's departure is being greeted as a loud vote of “no confidence” in the position: if such a well-known Washington infighter cannot make a go of the job then, it is widely believed, nobody can—least of all a quietly spoken former naval man.

George Bush senior once described the intelligence services as the nation's first line of defence. It has become even more important since September 11th 2001. The danger now is that an ill-defined job will become an irrelevant one—and that the spy agencies will all go their separate ways, just as they used to do.

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Unions

Ace in the hole

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From The Economist print edition

Why Nevada's trade unions are powerful

EVEN by Sin City's standards, the buildings now rising between the Bellagio and Monte Carlo hotels are brash. A posse of fashionable architects has created six towers, the smallest of which will be 37-storeys high, complete with rooftop swimming pools and a cavernous casino. When the complex opens in 2009, with a musical tribute to Elvis Presley, it will employ some 12,000 people. The Las Vegas Strip will have added thousands more of some things with which it is already well-endowed: hotel rooms, slot machines—and trade-union members.

Las Vegas is an unlikely stronghold of unionism, and not just because it is built on the promise of easy money. It lies in a “right-to-work” state, meaning that workers do not have to be members of a union to hold a particular job or be covered by a union contract. Its population is young and footloose—Nevada has been the fastest-growing state in the union for 19 out of the past 20 years—which does not encourage feelings of solidarity. And it hardly manufactures anything.

Yet unions have clung on in the desert even as they have been routed in other parts of America. Two decades ago, Nevada ranked 15th among the states for unionisation of its private-sector workforce. Now it is fifth. Las Vegas has become the symbol of “new” unionism, which is characterised by a missionary approach to recruitment. Next year, Nevada's unions have the chance to test their strength, and influence national politics, when the state becomes the second to select a Democratic candidate for the presidency.

Union bosses like to attribute their strength to a zest for organising. But a bigger reason is that the unions are tied to industries that have grown quickly. Marc Furman says that membership of southern Nevada's carpenters' union, which he heads, has tripled in the past decade. Put that down to hotel owners' enthusiasm for blowing up perfectly good buildings and replacing them with fake tropical islands and European cities.

The most powerful outfit in the state is the 51,000-strong culinary workers' union, which represents hotel and casino employees. It enjoys cordial relations with two of the Strip's biggest employers, MGM Mirage and Steve Wynn, and has lobbied on the gambling industry's behalf.

Such a force would be a useful ally in any political primary campaign. And Las Vegas's unions may be given the opportunity to wield more influence because of the lack of Democratic activists in the state. As the local saying goes, there is only one party that matters in Nevada, and that is the Gaming Party. Not surprisingly, the unions have already been courted by presidential candidates seeking to build early momentum next year. But they are keeping their cards well hidden, affecting an almost contemptuous attitude to politicians, particularly Democratic ones. D. Taylor, the head of the culinary union, describes such courting as “utterly worthless”. Still, it's nice to be the centre of attention.

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The Democratic Convention

Rocky Mountain sigh

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The Democrats' efforts to pick a 2008 convention site were embarrassing

EVEN as they enjoy being back in control of Congress, Democrats have their eyes on another prize: the presidency. But as candidates toss their hats in the ring, the national party has been having an awkward time choosing a city to host its 2008 convention.

The choice boiled down to New York City or Denver, Colorado. New York has many advantages: it is America's biggest city, diehard Democratic, and has lots of experience. But Democrats also wanted to portray themselves as a party with ties to the heartland. Those clever Republicans locked up one good heartland host by declaring in September that they will hold their convention in Minneapolis-St Paul, Minnesota. The Democrats have made striking gains in the mountain West in the past couple of elections, and have been especially successful in Colorado, where they now control the governor's office and legislature. So, on January 11th, Denver was chosen.

The choice was supposed to have been made by last month, but there were snags. New York's enthusiasm for the convention seemed half-hearted; its mayor, Michael Bloomberg, grumbled about how much it would cost. But Denver, for its part, made a point of embarrassing itself.

The problem has been labour unions. The city's stagehands union, the local chapter of the International Alliance of Theatrical Stage Employees, objected in principle to holding the convention in the preferred site, the giant Pepsi Centre, a sports arena that is non-union, though union members would be allowed to work there during the convention. The local chapter, annoyingly, was reluctant to sign a pledge promising that it would not strike or picket during the convention if the Democrats opted for Denver.

The impasse has also been awkward for Hillary Clinton, the front-runner to win the party's nomination for president. Although Mrs Clinton publicly backed New York's bid to host the convention—she had little choice, as one of the state's senators—many think she will have been better off “losing” the bid to Denver. Holding the convention in her own state would not have helped broaden her national appeal. But then again, neither would a messy union spat on the eve of an election—as may now happen, if the unions don't behave themselves.

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Lexington

An odd bunch

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Kevin Kallaugher

Seymour Martin Lipset devoted his life to explaining why America is different

ONE of the most memorable scenes in “The Good Shepherd”, Robert de Niro's excellent new film about the early years of the CIA, involves a conversation between a Mafia don and an impeccably WASPish CIA operative. “We Italians, we have the church and our family. The Irish have their homeland. The Jews have their traditions. Even the niggers, they've got their music. What do you people have?”

The CIA man replies, with all of the force of Yale and its most revered secret society, Skull and Bones. “The United States of America. The rest of you are just visiting.”

One of the oddities of America is that “visitors” have been so much better at understanding the country than the Skull and Bones crew. Two of the best observers—Alexis de Tocqueville and James Bryce—were foreigners. Other first-rate observers have sprung from the recent waves of immigration. Seymour Martin Lipset was one of the best of them, a man who devoted his career to defining what made America different.

Mr Lipset, who died last week, started his academic career as a triple outsider—working-class, Jewish and left-wing in an academic world that was then still an extension of the WASP establishment. His parents were immigrants from tsarist Russia (his father once met Stalin). He attended the lowly City College of New York rather than Yale or one of the other Ivies. He became the national chairman of the Young People's Socialist League.

His youthful socialism provided him with his first problem of “American exceptionalism”: why is America the only industrial country that has never produced a major socialist party? Mr Lipset's first answer to the question emphasised the nature of the political system. Presidential elections discourage Americans from wasting their votes on a third-party candidate. And the loose structure of American parties encourages factions to work inside them, rather than outside.

Mr Lipset subsequently decided that he was wrong. A succession of third-party candidates—Theodore Roosevelt in 1912, George Wallace in 1968 and Ross Perot in 1992—have done respectably. The problem with socialist candidates is not that they are third-party candidates but that they are socialists.

He flirted with another explanation—that America has much higher degrees of social mobility than the socialist-breeding countries of Europe. But the data told a different story. Rates of social mobility were much the same in America and Europe. The big difference was in values. Americans believed strongly in equality of opportunity and equality of status. Europeans were still hung up on status differences—sometimes even using different words to address people of different ranks.

The question of America's unique values became increasingly central to his work. He also broadened his inquiry to American exceptionalism in general. Why does the United States have sky-high levels of religiosity? Why do Americans hate turning out to vote but love forming voluntary associations?

He emphasised America's hostility to the state—a hostility so strong that it even affected the left. The American Federation of Labour was significantly more militant than most European unions. But it had little truck with statism: its leader for almost four decades, Samuel Gompers, claimed that his politics were “two-thirds anarchist”. Today's defining left-wing issue is “choice”—that is, preventing the government from interfering with women's control over their own bodies.

He also emphasised America's tradition of assimilation. Mr Lipset argued that the tone of the country was set by George Washington, who once wrote to a synagogue stating that Jews were not “tolerated” in America: they were Americans. Mr Lipset noted that America had relatively high rates of marriage between Jews and gentiles and between other religious groups. “The melting pot is melting as never before,” he remarked in 1996, when other intellectuals were fixated on divisions.

Not much like Canada

Mr Lipset traced much of this American exceptionalism to 1776. The revolution not only got rid of feudalism. It also shattered the “confessional state”, creating a free market in religion. He loved to analyse the way in which the monarchist counter-revolution in Canada produced a very different society—much more deferential, communitarian and statist. The American and Canadian governments tried to introduce the metric system at almost the same time. Today the Canadians slavishly follow the metric system—and the Americans cheerfully continue in their old ways.

American exceptionalism, Mr Lipset admitted, was a “double-edged sword”. America is much better than Europe in some ways and much worse in others: more open and dynamic, but also more violent, crime-prone and unequal. America's virtues and vices are part and parcel of each other. Its commitment to meritocracy explains both its dynamism and its harshness towards failure. Its moralism explains both its reforming zeal and its suffocating self-righteousness.

Mr Lipset has few natural successors, not least because the melting pot is so good at turning outsiders into insiders. Most Americans instinctively regard America as the measure of all things. And the fashion for multiculturalism is paradoxically reinforcing this myopia; other countries are wonderful so long as they accept basic American values.

This is a pity. American exceptionalism is flourishing these days, after a brief retreat in the 1960s and 1970s. Hence the growing differences with Europe over everything from military intervention to capitalism. Many people are predicting a great coming together of Europe and America once George Bush leaves office. There will certainly be a good deal of making up for a while. But anybody who expects the pleasantries to last forever should read Seymour Martin Lipset.

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Venezuela

With Marx, Lenin and Jesus Christ

Jan 11th 2007 | CARACAS
From The Economist print edition

AP

Hugo Chávez's "21st-century socialism" starts to look even more like old-fashioned autocracy

Get article background

THE story of Hugo Chávez's presidency in Venezuela since he first arrived in office in 1999 has been a bit like the dance of the seven veils. This week, as he began a new six-year term after winning 63% of the vote in an election last month, the leftist former army officer cast aside some of his "democratic socialist" clothing to reveal more radical and authoritarian plans. "The transition is over," Mr Chávez declared, and a "new era" has begun.

Seemingly unable to restrain his enthusiasm, the president sketched this era's outline in surprise announcements in the days before the formal inauguration of the new term on January 10th. He said that he planned to nationalise the telecommunications and electricity industries. He rang a television show to say that he was replacing the vice-president, José Vicente Rangel, who was one of the few remaining figures in the government with his own political clout. Earlier, Mr Chávez had announced that the government would not renew the broadcasting licence of RCTV, the largest opposition-run television channel, meaning it will be off the air by June.

The president said that the main telecoms company—Compañia Anónima Nacional Teléfonos de Venezuela (CANTV), privatised in 1991—and energy were "strategic" businesses that should be in state hands. Verizon, an American telecoms firm, had been planning to sell its 28.5% stake in CANTV to a consortium controlled by a Mexican businessman, Carlos Slim. Another candidate for nationalisation is Electricidad de Caracas, the country's largest electricity company which was bought for $1.7 billion in 2000 by AES, a Virginia-based power company.

CANTV's shares plunged: its American Depository Receipts, traded on the New York Stock Exchange, lost almost 40% of their value in two days. They recovered after the finance minister said that the nationalisation would follow the law, which requires that compensation be paid.

Also deemed "strategic" were refineries which upgrade the heavy oil from the Orinoco belt, operated by multinationals including BP, Exxon Mobil and Total. Hitherto, the government had merely said that the companies should cede a 51% stake in the oilfields themselves, not the refineries. In his inaugural speech, Mr Chávez said he wanted to change the constitution to give the state control over natural-gas operations as well.

The telecoms and electricity takeovers would be the first outright nationalisations by Mr Chávez. Private business in his Venezuela has profited from economic growth, which is running at 10% a year because of a huge windfall from high oil prices. But it is hedged in with price and exchange controls. It co-exists with an expanding state sector and a host of government-funded co-operatives.

What unites the various elements of the "new era" is the relentless centralisation of all power in Mr Chávez's hands. His supporters already hold all the seats in the National Assembly, because the opposition boycotted a legislative election in December 2005. He also controls the courts.

Now, he says, the central bank will lose its constitutional autonomy (though in practice this had already become a fiction). Other proposed constitutional changes will curb the powers of state governors and mayors, and remove the bar on the indefinite re-election of the president.

Mr Chávez also said that he would ask the assembly to approve an enabling law empowering him to introduce a raft of socialist measures by decree. These, he said, would be much more radical than a similar package in 2001, which sparked a three-year opposition campaign to unseat the president that included a failed coup attempt and a two-month general strike.

Many of these announcements came at a ceremony on January 8th to swear in the new cabinet. Behind Mr Chávez as he spoke was a 10-metre-high close-up of his own face and hands, reminiscent of a bishop blessing his flock. Along with the mounting personality cult is a change of language. The president sneered at those, including Catholic church leaders, who have wondered aloud what his much-trumpeted plan for “21st century socialism” really consists of.

The bishops, he said, should read Marx, Lenin and the Bible. “Christ was an authentic communist, anti-imperialist and enemy of the oligarchy,” he said. He added that he himself had been a “communist” since at least 2002 (at the time he claimed to want to “improve capitalism”.) It is the first time that he has publicly assumed that description. He signed off with a slogan (“fatherland or death, we shall prevail”) coined by his friend, Cuba's Communist president, Fidel Castro.

As always with Mr Chávez, the rhetoric may run ahead of the reality. But the direction of travel seems clear. The “new era” will see less scope for dissent. A law already going through parliament will restrict the ability of non-governmental organisations to receive money from abroad. By closing down RCTV, which he dislikes because it supported the coup against him in 2002, Mr Chávez is sending a message to the rest of the media that they need to toe the line, or else.

The departure of Mr Rangel from the government may also mark a turning point. A veteran leftist, he had been in government uninterruptedly since 1999. He was a moderating influence. He convinced Mr Chávez, who led a failed coup of his own against a democratic government in 1992, to adopt electoral politics.

Mr Chávez can claim an electoral mandate for “socialism”. Yet many Venezuelans equate this with the social-welfare programmes that he has implemented, thanks to oil money and Cuban know-how. There is much polling evidence that they value democracy and do not want Cuban-style communism.

Of all his announcements, the closure of RCTV raised most concern abroad. José Miguel Insulza, the secretary-general of the Organisation of American States, said this appeared to be “a form of censorship” and “a warning” to others. That brought an intemperate outburst from Mr Chávez, who had backed Mr Insulza, a respected Chilean, for the job against opposition from the United States in 2005. He called on Mr Insulza to resign, saying he was an “idiot” who was acting like a “viceroy of the empire” (ie, the United States).

At a session of the OAS permanent council, Mr Insulza was backed by many governments including those of Brazil and Chile. But there is little sign that these moderate left-wing governments, which claim to stand for democracy and capitalism, are prepared to distance themselves more generally from the newly unveiled “communist” in Caracas.

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Nicaragua

'Twixt Washington and Caracas

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From The Economist print edition

Daniel Ortega's balancing act

Get article background

NATURE itself heralded Daniel Ortega's return as Nicaragua's president on January 10th, almost 17 years after he lost the job. The day before his inauguration, Telica, a volcano outside León, the country's second city, erupted. Yet Mr Ortega claims that he is no longer the fiery revolutionary he was when his Sandinista movement ousted Anastasio Somoza, an American-backed dictator, in 1979. Now aged 61, there are several signs that he has abandoned ideology for expedience.

Mr Ortega won a presidential election in November with just 38% of the vote, thanks to a split in the Liberal party, which had ruled since 1990. He campaigned as the candidate of “peace and love”. He has made his peace with the Catholic church, backing a ban on abortion even in cases of rape or when the mother's health is in danger. His vice-president was a member of the Contra guerrillas, who with the backing of the United States waged war against the Sandinista government in the 1980s.

Mr Ortega's heart remains on the left. To his long-standing friendship with Cuba's Fidel Castro, he has added ties to Hugo Chávez, Venezuela's leftist president. Mr Chávez turned up to the inauguration promising massive aid, including cheap oil and money to build 32 power plants, 200,000 houses for poor people and to improve health and education.

But Mr Ortega's head appears to recognise that he needs good relations with the United States. Several American officials, including Jeb Bush, the former governor of Florida, urged Nicaraguans to vote against him. But after the election, Mr Ortega held a cordial meeting with Thomas Shannon, the State Department's top official for Latin America. He also gave his support to Nicaragua's ratification last year of the Central America Free Trade Agreement (CAFTA) with the United States.

In the 1980s the Sandinista government nationalised much of the economy and presided over hyperinflation. This time, Mr Ortega says, he will preserve economic stability and run an investor-friendly government. Despite recent economic growth, Nicaragua is one of the poorest countries in Latin America. It could benefit from the combination of American trade and Venezuelan aid. But that may prove a difficult balancing act for Mr Ortega.

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Argentina

Family matters

Jan 11th 2007 | BUENOS AIRES
From The Economist print edition

An early start to the presidential campaign

Get article background

THE presidential election is not until October. But Roberto Lavagna chose this month, when most Argentines head for the beach, to announce his candidacy. As finance minister from 2002 to 2005, he has a good claim to be the architect of four years of economic growth running at 9% a year.

But the man to whom Argentines give the credit is the left-leaning president, Néstor Kirchner, who sacked Mr Lavagna. With an approval rating of over 70%, Mr Kirchner should easily win a second term. Odd, then, that officials have been touting the candidacy of his wife, Cristina Fernández de Kirchner, a senator. The logic: he could then come back in four years' time, extending the life of the Kirchner family regime.

Mrs Kirchner is less popular than her husband. The betting is that Mr Kirchner himself will stand if he is not confident she could win without a run-off. That means winning at least 45% of the vote, or 40% with a ten-point lead. So the Kirchners are likely to delay their choice until closer to the deadline for registering candidacies in September.

Mr Lavagna has the support of two former presidents, Raúl Alfonsín and Eduardo Duhalde. He criticises Mr Kirchner's economic interventionism and accuses him of undermining democratic institutions. Opinion polls give him less than 15% support. His chances of forcing a run-off depend on whether he can unite the opposition—and on which Kirchner he is up against.

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The Canadian Wheat Board

Going with the grain

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From The Economist print edition

A plan to curb a venerable monopoly

“WHY should I sell the Canadian farmers' wheat?” asked Pierre Trudeau, a Liberal prime minister, in 1968. By daring to question the existence of the Canadian Wheat Board he helped relegate his party to perennial fringe status in the prairie provinces, where the board has a legal monopoly over wheat and barley sales. Successive governments gingerly left the board alone. But Stephen Harper's Conservative minority government has no such inhibitions. It plans to remove the board's monopoly, thus possibly spelling the end of a venerable Canadian institution—and one of the world's biggest grain exporters.

The board, a government body, dates from the Depression, when farmers were going broke. It is responsible for quality control, sales and marketing. It fixes a guaranteed price, with the government covering its occasional losses. Its supporters, often smaller farmers distant from the American border, say that the board has turned Canadian wheat into a global brand that commands a premium price because of its uniform high quality. Its detractors among farmers say that they could beat the board's price by selling directly, and that decentralised sales would encourage local food industries. It is a sore point on the prairies that much of the flour on the country's supermarket shelves is milled in Ontario.

Mr Harper believes in smaller government. He is honouring a campaign commitment to allow farmers in the three prairie provinces—Alberta, Manitoba and Saskatchewan—to sell their wheat freely. To that end, the government replaced three of the board's directors and, in December, its president. The opposition Liberals and the premiers of Saskatchewan and Manitoba (but not Alberta), want to keep the board. Chuck Strahl, the agriculture minister, has agreed to ballot farmers on the issue. But barley growers, thought to be more in favour of freeing markets than wheat farmers, will vote first.

The outcome of the votes is uncertain. Mr Strahl insists that the board can survive—albeit in diminished form—a transition to free markets, which he envisages by the summer of 2008. Environmentalists claim that a C$345m ($300m) biofuels programme, announced last month, is a subsidy designed to sway the vote.

The debate over the board has rumbled on for years. But this time change may at last happen. The Conservatives, whose heartland is in the west, won 48 of the 56 prairie seats at the most recent election. Their bet is that the farmers, however disgruntled, will not desert them for their opponents, who are seen as representing eastern Canada. With wheat prices high, some farmers see instant profits from the end of monopoly.

International pressure against the board is mounting, too. American farmers have long complained that the monopoly involves subsidy. The European Union agrees. John Howard, Australia's conservative prime minister (who is seen as a role model by some Canadian conservatives), last month stripped his country's wheat board of its monopoly following a bribery scandal. Though some prairie farmers stand to lose from free markets, Canadian consumers stand to gain from cheaper flour. Unlike Trudeau, Mr Harper has little to fear from taking on the board.

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Guyana

Looking south

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From The Economist print edition

Bridging a divide of language and history

A PONTOON ferry putters on demand across the Takutu river not far from the small border towns of Lethem in Guyana and Bomfim in Brazil. It is the only surface link between two countries that have traditionally ignored each other. Guyana, though geographically part of South America, has colonial and linguistic links with the English-speaking Caribbean. Most of its 750,000 people live within a few miles of the Atlantic coast. Portuguese-speaking Brazil has looked to its Spanish-speaking neighbours.

This mutual indifference is slowly changing. In December Brazil's government agreed to spend $3m on a bridge over the Takutu; work may start later this month. Or rather restart: an earlier attempt ground to a halt five years ago, when the Brazilian courts detected financial irregularities.

There are bureaucratic hurdles to cross too. A road-transport agreement has not yet yielded a system for insuring vehicles on short cross-border visits. A trade agreement was signed in June 2001, but Bomfim is not yet an official point of entry for goods. While legal Guyanese exports are blocked, illicit cross-border trafficking in guns, drugs and diamonds thrives.

A dirt road links Lethem to Georgetown, Guyana's capital, but carries only five or so vehicles a day each way. Most cross-border travellers are Brazilian *garimpeiros*, who mine gold and diamonds in Guyana's interior. A Brazilian airline runs a turbo-prop service from Georgetown to the Brazilian town of Boa Vista.

There is potential for much more. A Brazilian company wants to grow sugar cane for ethanol on a large scale in eastern Guyana. Companhia Vale do Rio Doce, a Brazilian mining giant, is interested in Guyanese bauxite, and there is talk of Petrobras getting involved in oil exploration.

The interest is mutual. “More people are looking south. We see it as a huge possibility,” says Bharrat Jagdeo, Guyana's president. “We have a deep water harbour. If the road from Boa Vista was upgraded, it would cut three days for traffic from Manaus to the Atlantic.” Maybe, though there are environmental objections and the deep water port has yet to be built. But diplomatic ties are growing. Guyana attends the annual South American summit; last year it chaired the Rio Group of Latin American nations. Georgetown is “twinned” with Boa Vista. The bridge may serve a purpose.

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Chinese foreign policy

A quintet, anyone?

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From The Economist print edition

Reuters

China is making it clear that it wants a bigger role in the Middle East

UNLIKE other outside powers involved in the Middle East, China is on good terms with everyone. Hardly had Iran's chief nuclear negotiator, Ali Larijani, left Beijing than Israel's prime minister, Ehud Olmert (above with Wen Jiabao, his Chinese counterpart), arrived this week for talks with Chinese leaders. Should America be worrying?

Last month, the Chinese foreign ministry played host to what it called its first non-governmental seminar bringing together former senior Israeli and Palestinian officials to discuss ways of achieving peace. They reached a consensus that must have pleased their hosts. China, they said in a statement, should increase its influence in the Middle East and join the “Quartet” (America, the European Union, the UN and Russia) that is pursuing peace efforts. This, China's press quoted a Palestinian participant as saying, would help counter the bias of “some countries” involved.

Never mind that China, in the more than four years since it appointed a special envoy to the Middle East, has offered no original ideas. To all sides, it still has much to offer. To oil-exporting countries, China has rapidly emerged since the 1990s as a big customer and investor. Some 45% of China's oil imports from January to November last year were from the Middle East. To countries such as Iran and Syria, eager to check American power in the region, China's veto power at the UN and its shared misgivings about America make it a welcome friend. Refreshingly, China asks no questions about democracy.

Israel, too, courts China because of its potential influence in the region. China shares its distaste for Islamic militancy. And despite China's close ties with Arab countries and Iran, Israel (to America's chagrin) sees China as an important market for its military industries. Last week China unveiled a new home-built advanced fighter jet, the *Jian*-10. Western military experts believe it incorporates Israeli (as well as Russian) technology.

American officials do worry. China has been hesitant to put pressure on Iran to abandon its nuclear programme. In the first 11 months of last year, Iran was China's third-biggest supplier of oil after Angola and Saudi Arabia, providing 12% of the total. China has also been reluctant to penalise Arab-led Sudan for the bloodshed in Darfur. From January to November 2006, Sudan accounted for less than 3% of China's crude imports. But China has invested hugely in Sudan's oil infrastructure, helping it become a net oil exporter.

China sees advantages for itself in any diminution of American power. In its view, America's preoccupation with the insurgency in Iraq strengthens China's hand in its dealings with Taiwan. Anxious to avoid trouble on another front, America has been even more vigorous than usual in deterring Taiwan from angering China with any hint of a move towards formal independence. In both Sudan and Iran, China has often balked at American-led initiatives in the UN that could be seen as legitimising strong-arm tactics against countries deviating from international norms. China fears it might be next.

But China has recently edged closer to America's position. In November, its UN ambassador, Wang Guangya, began showing unusual zeal in trying to persuade Sudan to accept UN intervention in Darfur. The same month, China

offered to send 1,000 troops to join UN peacekeepers in Lebanon. On December 23rd China and other members of the UN Security Council approved the imposition of sanctions on Iran's trade in nuclear and missile-related materials. The sanctions were hardly crippling, but China's endorsement of them was an important symbolic act.

Despite China's disdain for the American-led invasions of Iraq and Afghanistan (the latter bringing the American army right to China's border), it has not attempted to frustrate American operations in either country. It has pledged more than $300m for reconstruction in Afghanistan and begun negotiations with Iraq that could result in its writing off billions of dollars-worth of pre-invasion Iraqi debt. China was a big seller of arms to both Iraq and Iran during the 1980s war between the two countries. It hawked missiles and nuclear technology across the region. But since the 1990s it has been far more sympathetic to American concerns about weapons proliferation and has tightened its still-imperfect export controls.

China worries about its dependence on American military might for the security of its oil shipments from the Middle East. It is still a long way from being able to project military power over such a distance itself, though a Chinese official was quoted in the state-owned press this week as saying China had the ability to build an aircraft carrier, but had not decided when to do so. China is trying to diversify its sources of energy, buying more from Russia, Central Asia, Africa and Latin America.

But experts predict that China will long remain heavily dependent on energy from the Middle East. So it has little choice but to support efforts to stabilise the region. It may not agree with America's tactics, but will share the same broad objective. Jeffrey Bader, a former senior American diplomat now at the Brookings Institution, a think-tank in Washington, DC, says that China's resistance to American initiatives in Sudan and Iran depends on Russian support for its position. If Russia were to switch sides, so too would China, he argues. It is in no mood to take on America alone.

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Thailand

Rebranding Thaksinomics

Jan 11th 2007 | BANGKOK
From The Economist print edition

And wrecking the economy, with the UN's ill-judged backing

Get article background

IGNORING warnings that foreign firms might pull out, on January 9th Thailand's military-backed government announced tighter restrictions on foreign ownership of local companies. The stockmarket, battered by December's botched curbs on currency inflows, a spate of bombs in Bangkok and rumours of power struggles in the army, fell further. So the government backtracked on some of the changes, further denting its credibility.

The government's espousal of a “sufficiency economy” theory, developed by King Bhumibol, further fuelled suspicions that it plans a partial retreat from Thailand's hitherto liberal economic stance. No, insisted the prime minister, General Surayud Chulanont, the sufficiency economy “does not by any means imply a rejection of globalisation”. So what does it mean? The general was launching a report on Thailand by the United Nations Development Programme (UNDP), which promised to answer that very question. It explains that the sufficiency theory is for sustainability, moderation and broad-based development; and against excessive risk-taking, inequality and other evils.

The king developed his theory during the 1997 Asian economic crisis, when the consequences of years of reckless growth caught up with Thailand. But Thailand's finances are now much more solid and great progress has been made in bringing health care and education to the rural poor—as the royal theory proposes. Like so many generals, the leaders of last September's coup seem to be fighting the last war.

Judged by the sufficiency theory's own tenets, the five-year government of Thaksin Shinawatra, the deposed prime minister, was wondrous. His “30-baht health plan”, offering treatments for less than a dollar, helped cut poverty sharply. Yet his government ran a surplus most years (the new one plans a deficit), cut public debt and built big currency reserves. There were extensive programmes to help rural villagers find new sources of income.

However, the UNDP report goes out of its way not to mention the Thaksin government or its policies. There is no discussion of how the new “sufficiency” policies will differ from Mr Thaksin's—just an uncritical lauding of the new government's five-year plan as “the biggest shift in Thailand's economic orientation in over two decades” and much praise for royal projects.

The sufficiency theory talks of “immunising” the national economy against shocks. So far, the military government only seems to be creating shocks. As a result, growth is set to slow, and with it Thailand's progress in cutting poverty. Neither the UNDP's report, nor the many speeches launching it, discussed such awkward truths. The generals, having struggled to pin charges on Mr Thaksin, now want to airbrush him from public consciousness, to thwart any comeback. This week they told Thai broadcasters to stop quoting him.

The autocratic businessman-turned-politician was careful to attach a personal brand to his popular policies. Many are now having the label removed: the 30-baht treatment fee is being dropped, so cheap or free health care can no longer be called by a name linked to Mr Thaksin. Overall, the generals want to overwrite his brand with the only stronger one in Thailand: the monarchy.

Perhaps it makes sense for the new government to obscure its predecessor's achievements while stealing its best clothes. The question is why the UNDP thinks it should provide cover for this whitewash by puffing the sufficiency economy as a miracle-cure for the developing world's woes. The answer is that the UNDP is a sucker for this sort of new-age waffle, especially if it has royal patronage. It has also lauded the not entirely dissimilar “Gross National Happiness” theory of Bhutan's King Jigme Singye Wangchuk.

In publishing such an unbalanced report on a theory that is untried on a national level, the UNDP has abandoned all sense of objectivity. It is also lending legitimacy to a regime that took power by force. Hakan Bjorkman, the UNDP's deputy chief in Thailand, says it wanted to provoke a debate. But no such debate is possible in Thailand, because sufficiency theory is the king's philosophy and anything remotely critical of it could be seen as *lèse-majesté*, punishable with jail.

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South Korea's kidnap victims

Gone, fishing

Jan 11th 2007
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North Korea kidnapped South Koreans, as well as Japanese

AFP

IT TOOK 31 years but even so Choi Uk-il had, compared with many others, a lucky escape. In 1975 he and 32 fellow South Korean fishermen had been seized by North Korean sailors near the maritime border. Late last month, he escaped to China and was reunited with his wife (pictured left). The government in Seoul believes that more than 480 South Koreans have suffered a similar fate since the 1950s. Mr Choi's story has highlighted the government's habitual indifference, and caused outrage.

Unlike in Japan, where the abduction of at least 17 people has caused huge popular anger, the kidnappings have aroused little public indignation or government activity in South Korea. Because of the Korean war (1950-53) and the division of the peninsula, many Korean families lost members, or were separated from them. So the abductees won no special sympathy. During the cold war, attempts by families to locate missing relations were hampered by the fiercely anti-communist military government, with its suspicion of communist connections. More recently, the government in Seoul has avoided confronting the North over the kidnappings for fear of damaging its policy of engagement with its neighbour. North Korea denies any kidnapping, claiming all the victims went north of their own accord.

The treatment that Mr Choi received from South Korean officials following his escape into China reflected this traditional neglect. But this time it was exposed by a video made by an activist group. The Abductees' Family Union posted on the internet a video of Mr Choi and his wife calling a consular official for help. The official's bureaucratic indifference to their plight, and his repeated questions about how they obtained his mobile-phone number, infuriated South Koreans. The episode played on existing disenchantment with the foreign ministry. Within days, the ministry issued a public apology for its handling of the affair and promised Mr Choi swift repatriation to the South.

Public sentiment has recently been much more sympathetic to the kidnap victims' plight, and the shrewd use of the internet and the press helped Mr Choi benefit from this. The remaining kidnap victims are less fortunate. Belatedly responding to its critics, the government has taken some steps. Legislation to provide compensation for victims' families and for those who escape is going through parliament. The subject has even been raised in inter-Korean ministerial meetings. But the government is still keen not to ruffle North Korean feathers. The many families still awaiting the return of their kidnapped relations are hoping it will be more robust.

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Japan and North Korea

Pyongyang's cashflow problem

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The Japanese sluice-gates close

MUCH of the cash that keeps Kim Jong Il's bankrupt regime in business stems from the 600,000 ethnic Koreans in Japan. They have plenty of grievances with their host country and a lot of sympathy for the regime in Pyongyang. Many feel duty-bound to donate money for its upkeep. Japanese authorities have watched helplessly as the cash flowing from *pachinko* parlours (pinball arcades run largely by the Korean underworld) has also gushed offshore.

The sluice-gates are at last closing. In September the Japanese government approved measures to block the transfer of funds to North Korea. Banks had to report suspicious transactions and to demand proof of identity for cash transfers exceeding ¥100,000 ($840). Previously, sums up to ¥2m could be transferred anonymously as cash, even without an account in the bank concerned.

The government gave the banks three months to prepare for the extra workload and to alter their automated teller machines so they could not accept large sums of anonymous cash. On January 4th the new money-laundering measures came into effect.

Since its nuclear test last October, North Korea has been facing tighter international sanctions. For its part, Japan has banned North Korean vessels from its ports and tightened export controls. Any money or supplies reaching North Korea from Japan these days have to be carried by ethnic-Korean tourists. But with ferry connections between Japan and North Korea discontinued, Koreans wishing to make the pilgrimage to their ancestral home now have to charter flights via Beijing. This adds hugely to the cost, and deters many. On their return, they now have to brave immigration officials with new powers to deny re-entry to Japanese passport-holders who have visited North Korea.

No surprise that Mr Kim has been dishing out invitations to power-brokers in Japan's ruling Liberal Democratic Party (LDP) to visit. The only taker so far has been Taku Yamasaki, an out-of-favour former vice-president of the LDP, who failed to inform party bosses about his trip until he was already on his way. Judging from the outrage in the prime minister's office, Mr Yamasaki will be even more out of favour when he returns—provided, of course, the immigration officials let him back in.

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Vultures

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RSPB

Two oriental white-backed vultures have been hatched in captivity for the first time, in Haryana, northern India—a glimmer of hope for three species of Asian vulture that have been poisoned almost to extinction, declining by up to 99% in the past decade. The poison is diclofenac, an anti-inflammatory drug for cattle, which causes kidney failure in vultures that feed on their carcasses. In India, Pakistan and Nepal, it has wiped out millions of white-backed, slender-billed and long-billed vultures, the most effective scavengers in a carrion-ridden ecosystem. Last year the three countries banned making and importing diclofenac, but it is still used. Unless captive birds can be raised, scientists say, over the next decade the vultures will go the way of the dodo.

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Post-coup Fiji

The commander improvises

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The new regime may find it hard to return to democracy

Get article background

A MONTH after he seized power in a coup, Fiji's armed-forces commander, Frank Bainimarama, is still hunting for legitimacy. He is unlikely to find it democratically, but he is making political friends. He has handed executive authority back to the former president and taken for himself the job of prime minister. Surprisingly, his new cabinet gives important portfolios to Mahendra Chaudhry, Fiji's first prime minister of Indian descent, ousted in a coup in May 2000. Mr Chaudhry calls this a “strange twist of destiny”, but is poised to become a dominant figure in the new regime.

Fiji's most recent coup, according to the commander, is intended to “clean up” corruption and establish good governance. But from the outset it has had an improvised quality. Having failed to persuade the government to stand down, the commander seized power on December 5th. Saying he was temporarily “stepping into the shoes” of Ratu Josefa Iloilo, the president, he dissolved parliament and sacked Laisenia Qarase, the prime minister.

Upon reappointment, the 86-year-old president retrospectively “fully endorsed” the commander's power-grab. He is not alone in aligning himself with the armed forces. Fiji's customary power, the Great Council of Chiefs, which had refused to endorse the coup, on January 11th threw its weight behind the new regime. Even the Human Rights Commission, normally stalwartly pro-democracy, has produced a 32-page document seeking to justify the coup. Besides members of Mr Chaudhry's Fiji Labour Party, prominent members of the family of the late president, Ratu Sir Kamisese Mara, have taken important portfolios. Populist measures, such as reversing a proposed rise in value-added tax, have increased support for military rule, particularly among ethnic Indians, some 40% of the population.

Foreigners will coax Fiji to hold early elections, but internal pressures may encourage delay. The Commonwealth has suspended Fiji and, like the European Union, will be reluctant to re-engage unless there is some sign of a timetable for the restoration of democracy. The EU link matters. At stake is some $200m earmarked for Fiji's troubled sugar industry.

At home, however, fresh elections might break up the new ruling alliance. Mr Chaudhry would probably still command most of the Indian vote, but most Fijian voters prefer Mr Qarase's party. Even if Commodore Bainimarama's new coalition won a future election, the ethnic-Fijian politicians close to him would probably find themselves junior partners in a Labour-led coalition, and might become disgruntled. And if arrangements do not suit the armed forces, there are now plenty of precedents for another coup.

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India's north-east

Assam's troubled brew

Jan 11th 2007 | DELHI
From The Economist print edition

The government vows to end the killing; it would be nice if it meant it

EPA

Home from the hills

Get article background

THERE is something rather Monty Pythonesque about the United Liberation Front of Asom (ULFA), an insurgent group whose website lists, among other criteria for membership, a bar on "any person addicted to porno book-magazine, cinema and ordinary songs". Yet no one in India's north-eastern state of Assam, where the group has been killing people for 27 years, sees the comic side. Certainly, none of its latest alleged victims: over 70 poor migrants from other Indian states, milk-sellers and brickmakers, killed at the roadside by bullets and bombs in the past week.

Thousands of migrant workers fled Assam, mostly home to teeming, Hindi-speaking Bihar. Over 3,000 troops were sent to enforce a 24-hour curfew in the remote hilly districts where the killings occurred. The army chief and defence minister visited, the latter promising to "meet this challenge with all might".

Similar approaches have often failed to erase ULFA, or the dozens of other small insurgent groups in India's north-eastern states, chiefly because the militants have a choice of ill-patrolled borders to slip across: into Bangladesh, Bhutan or Myanmar. But also because India's governments have not been sufficiently troubled by these gangs to sustain much effort against them, or the local grievances they feed upon. Support for ULFA and its separatist cause is confined to a few parts of Assam and has been squandered by the group's tactics: extortion, murder and taking refuge in Bangladesh, whose migrant workers are also resented in Assam. But, in one of India's poorest states, with little development to show for its oilfields and tea plantations, anger with the central government runs high. Assamese intellectuals say that if ULFA's latest roadside victims had been Assamese—like most of the other 10,000 people it is estimated to have killed—there would have been less fuss.

They are probably right. The ugly truth is that the troubled north-eastern states are not a priority. They seem tenuously bound to India, and are overrun with well armed separatists. But the insurgent groups are too small and ill co-ordinated to challenge India. For its part, the government, especially in Kashmir, has shown itself willing to suffer endless low-level conflict rather than cede territory.

ULFA is a difficult negotiating partner. It has a record of seeking peace talks when weak, only then to rearm and return to the fight. That was the case last September, when negotiations between the government and the insurgents' representatives foundered on the intransigence of both sides. Moreover, ULFA's chiefs are reported to have grown rich through extortion in Assam and business in Bangladesh. They probably have nothing to gain from the peace most Assamese crave.

Yet with a little more humility in Delhi, peace might still be possible. Through negotiation and sweeteners, the government has in recent years bought a pause, at least, in the even older insurgencies in next-door Nagaland. This

has scarcely strengthened its writ; the militants in Nagaland are still armed and at large. But the violence has been greatly reduced; and for many locals that is blessing enough.

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Correction: Outer and Inner Mongolia

Jan 11th 2007
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The map accompanying our article on Genghis Khan's legacy (December 23rd) was inside-out. The area labelled “Outer Mongolia” was in fact Inner Mongolia, an “autonomous region” of China. Our apologies. This error has been corrected online.

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Somalia

This time it's revenge

Jan 11th 2007 | NAIROBI
From The Economist print edition

AFP

Despite its previous unhappy experience, America decides to get involved once again in a civil war in the turbulent Horn of Africa

Get article background

BELATEDLY, if inevitably, the fist of American military power has smashed back into Somalia. On January 7th and 8th, an AC-130 gunship of the Special Operations Command (flying out of the large American base in Djibouti) struck Islamist targets near the town of Afmadow in the bush of southern Somalia and again at Ras Kamboni, a peninsula on the border with Kenya (see map). Further air strikes were reported, some from attack helicopters, but the Americans denied it was they who were making them. The surviving Islamist fighters, now numbering in the hundreds, seem to be surrounded, squeezed between the Kenyan army to the south, the Ethiopians to the north and an American fleet offshore. A few may escape, others will surrender, and the rest will probably be killed within the week.

They have fought a disastrous campaign. Since attacking Ethiopian and Somali transitional-government positions outside Baidoa on December 19th, they have been relentlessly driven back, losing control of central Somalia, then the capital, Mogadishu, before abandoning the port of Kismayo. Even then, observers still overestimated their military clout, expecting them to slip away into the thickets and the salty mangrove swamps, to reappear a few months later as a ferocious guerrilla force.

Instead, their convoys have sunk into mud and sand, making them easy targets for the Americans and invading Ethiopians. The Islamists failed to anticipate either that the Kenyan army would move so quickly to shore up its border or that America would risk firing directly on them. The lesson has been a hard one. Without a Tora Bora hideaway to run to, as in Afghanistan, and lacking the support of the local population, even the most zealous jihadist force is liable to be wiped out.

Still, the American action raises uncomfortable questions. For a start, how many people died in the air raids and who exactly were they? Taken together, the attacks claimed dozens, possibly hundreds of lives. Sketchy reports, including one from a doctor working for the Islamists, suggest that women and children were among the dead. The Americans used the AC-130, a behemoth designed to shred large areas instantly, in the knowledge that the killing fields would be cleared before journalists and aid workers could reach them. The

Americans said that their first overt action in Somalia since 1993 was limited to stopping “al-Qaeda terrorists” from escaping. But that label hardly describes the bulk of the Islamist fighters, many of whom are little more than boys.

Their crime was to have sheltered (or pretended to shelter) three al-Qaeda men wanted for their part in the 1998 bombings of the American embassies in Nairobi and Dar es Salaam that killed at least 235 people (nearly all of them local Africans) and for the attacks on Israeli tourists in Mombasa, Kenya's main port, in 2002. One of the three men, Fazul Abdullah Muhammad, who served as a leader of al-Qaeda in east Africa, was originally thought to have been killed in the air strikes. But the Americans later denied these claims.

There is no way of knowing for sure. The American armed forces have issued inaccurate reports of their air raids before. Given Mr Muhammad's shadowy existence, perhaps not even a body will suffice as proof. The whereabouts of Abu Taha al-Sudani, a Sudanese bombmaker said to be close to Osama bin Laden, and a third man, Saleh Ali Saleh Nabhan, were not known. Several Islamist commanders, including the political leaders of the Islamic Courts, which ruled most of central and southern Somalia in the months before Ethiopia's onslaught, have fled the country, some before the fall of Mogadishu.

Somalia's transitional president, Abdullahi Yusuf, has praised the American action, but it is doubtful whether he speaks for most Somalis. There has been sharp criticism of the American air attacks in the Muslim and wider world; the new UN chief, Ban Ki-moon, was quick to give warning against the “possible escalation of hostilities that may result”.

The fear is that the air strikes will be a rallying call, as al-Qaeda hopes. After all, it was CIA backing for the hated warlords in Mogadishu to hunt down al-Qaeda people last summer that stirred support for the Islamists in the first place. The Islamists may be marked as cowards for recruiting boys to fight their war, then running away, or they may come to be seen as martyrs. Much depends on what comes next: America will need to pay more attention to detail and work out an approach not wholly framed by the war on terror.

The most urgent priority is to replace Ethiopian troops with an international peacekeeping force. Diplomatic efforts have failed to produce any troops yet. A battalion promised by Uganda may take a month to arrive. Troops from Nigeria, South Africa, Egypt, Tanzania and Rwanda may take even longer. Already, the European Union has cast doubt on the African Union's ability to run the operation.

Despite Mr Yusuf's quick support for American action, it is unclear how Somalis and Muslims elsewhere will respond in the coming months. Successive American governments of both hues have shunned Somalia since losing soldiers there in 1993. The quality of American intelligence has been poor, often reliant on the warlords who caused misery in Mogadishu. But the fervent anti-Americanism of most Somalis may in some ways reflect a sense of abandonment by the superpower as much as the usual grievances about its pro-Israeli policies and infidels in general.

They couldn't stay away for ever

In any event, the air raids have thrust America back to centre stage. While sharing military intelligence with Ethiopia, it has the ear of several ministers in the Somali transitional government, most of them warlords. Its decision to join the attack, some say to promote it, together with its crude characterisation of the Islamists as al-Qaeda fighters, has upset other members of the International Contact Group on Somalia, which includes the European Union and the two countries most closely involved, Britain and Italy. UN officials in Nairobi fear that America's involvement may further alienate Somalis from their transitional government.

But at least the Americans agree with the UN and the Europeans on one big matter: moderate Islamists should be included in a government of national unity. So far, however, Mr Yusuf has crisply rejected that idea. And even if his transitional government reaches out to these moderates, hideous problems will remain. In particular, rivalry between Somalia's many clans, which has been the country's bane since its inception half a century ago, will keep it unstable for a long time yet.

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Rwanda

Keep looking ahead

Jan 11th 2007 | KIGALI
From The Economist print edition

Despite its dreadful history, the country in some ways is going in the right direction

Get article background

THE genocide memorial in Kigali feels modest and understated, a bit like a leisure centre. Roses grow out of the gravel. The dead are contained in pits in the terraced gardens, each pit sealed with concrete slabs. The bones are packed tight together, about 265,000 bodies in all. A few minutes' drive in the other direction, down a smooth and winding tarmac road, is the Kigali golf club. This is post-genocidal Rwanda: the fairways are verdant, a new suburb sits on the hill above. The houses would not look out of place in a prosperous bit of Europe but are occupied by Rwandan civil servants, their mortgages deducted from their monthly salaries.

It is amazing to think that Rwanda, of all places, is trying to set an example of good governance in the region. When the Rwandan Patriotic Front (RPF) took control of the country in the summer of 1994, it looked finished: the stench of death was everywhere. Some 800,000 Rwandans, mostly from the once-dominant Tutsi minority, had been killed by members of the majority Hutu tribe in a matter of weeks: truly a decimation. These days the country is ambitious. “The view in the past was that it was our fate to be poor,” says a minister. “We don't believe that now. We believe our fate is to be rich.”

Rwanda's government is certainly focused on “performance” and “service delivery”. So while Kenya's talks about computers in universities, Rwanda's is busy installing wireless internet in rural primary schools. The government, still RPF-dominated, says it expects to meet most of the UN's Millennium Development Goals before 2015. Alone in the region, it eagerly promotes family planning. Foreign investors are wooed. Along with neighbouring Burundi, Rwanda will join the East African Community in 2007—a big step in its plan to become a bilingual trade hub linking French-speaking central Africa with English-speaking east Africa. The idea of a rail link with Tanzania is being aired.

Donor money—guilt money, some call it—has paid for nearly all of this. It used to come with policy prescriptions attached. Now large amounts of it go straight into government coffers. For that trust, Rwanda can thank the austere if harsh leadership of its president, Paul Kagame. He says that curbing corruption is a top priority. Ministers get one car, for which they have to pay in part themselves. Mr Kagame spends his evenings reading the *Harvard Business Review* and other management literature. He enthuses about competition. If landlocked Rwanda is to have a future, he says, it must add value, to its people by education, then to its tea, coffee, mining and tourism.

Its recent history of genocide makes other extraordinary demands. Conciliation will take generations. The country promotes a “one Rwanda” policy that is meant to be ethnically blind. Some complain it is not at all; in many places, killers live among survivors and in others returned Tutsis dominate. The threat of Hutu extremists who live across the border in Congo has diminished. Many Hutus have come home to Rwanda. Perhaps 12,000 of them, still armed, remain in Congo, Mr Kagame reckons; but they are unlikely to destabilise Rwanda as long as Congo's government does not help them.

A recent diplomatic storm with France has been a distraction. A French investigative judge wants some of Mr Kagame's senior aides to stand trial for allegedly shooting down a French-piloted aircraft in 1994, carrying the then president of Rwanda Juvénal Habyarimana. Mr Kagame riposted by cutting diplomatic ties with France; this week Rwanda demanded that France arrest the wife of Habyarimana on charges she was involved in the genocide.

France's role in arming and training the Hutus who organised the killing is murky. The row has pushed Mr Kagame, who does not speak French, still closer to the Anglophone sphere; he now wants Rwanda to join the Commonwealth.

His country still faces problems, especially in politics. Mr Kagame may succumb to the cult of personality that has derailed so many other African leaders. His sometimes sinister secret police may already be more powerful than Rwanda's elected representatives. Crime may be low, but some say that political arrests and assassinations are still common; Mr Kagame rules Rwanda through fear as much as anything. The RPF has marginalised or smeared dissenting voices in the name of “one Rwanda” and the ruling party's supporters are accruing wealth and power. The Netherlands, a big donor, has reduced its bilateral aid budget to the country in protest against political repression.

The other worry is whether Rwanda's neighbours—Burundi, Congo, Tanzania and Uganda—will build the transport infrastructure to get Rwanda's improved goods to market abroad. If they do, then perhaps Rwanda can really move

ahead.

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Israel and Iran

How imminent or real a threat?

Jan 11th 2007 | JERUSALEM
From The Economist print edition

Israelis vary in their views of the Iranian menace

AFP

The official Iranian view of Israel

"FOR the first time since its independence, Israel is close to facing an existential threat." Coming from Avi Dichter, the internal security minister, who fought in the 1973 war when Israel's Arab neighbours nearly defeated it in a surprise attack, these are surpassing words; Israeli politicians often paint their country's history as one long series of existential threats. But the prospect of an Iranian nuclear bomb, along with the call from its president, Mahmoud Ahmadinejad, for Israel to be "wiped off the map", has them exercised as never before.

Most informed Israelis were sceptical about a report this week in a British newspaper, the *Sunday Times*, which cited unnamed Israeli military sources saying that Israel is training pilots for a tactical nuclear strike against three Iranian nuclear sites. It could have been carefully leaked sabre-rattling, but it seems strange, not to say irresponsible, for a country that still maintains an official policy of "ambiguity" about whether it even has nuclear weapons to let its officers spread such rumours. That said, though, its prime minister, Ehud Olmert, was lambasted for being similarly rash in virtually acknowledging his country's nuclear capability a few weeks earlier.

In any case, going it alone, as Israel did in 1981 when it hit Iraq's Osirak reactor, would have little certainty of success against Iran, as Israeli security officials are quick to stress. Iran may have other nuclear sites that nobody knows about or that are too well-protected. It has already built up a stockpile of uranium hexafluoride, the raw material for enrichment into reactor fuel or bomb-grade material, and is bound to store it deep underground. Even if its main enrichment plant, at Natanz, is destroyed, it may restart enrichment out of view elsewhere—if indeed it is not going on already. Moreover, for an attack to succeed, it would need to suppress Iran's air defences, and stop Iran retaliating by destroying some of its missiles and perhaps its naval facilities. Such a big campaign would need American help, and America is probably far too busy in Iraq.

Israeli officials think Iran may be downplaying technical problems with fuel enrichment, to convince the world that it already has all the required skills. The more time slips by, the lower the chances of success for any attack. And it is not only Israel's leaders who are worried. Thanks to their own dire warnings ("It is 1938, and Iran is Germany," is the favourite line of the right-wing opposition Likud's Binyamin Netanyahu), a poll last month in *Maariv*, an Israeli newspaper, found that two-thirds of Israeli Jews think Iran would use a nuclear bomb to destroy Israel.

Still, a recent conference run by the Truman Institute at Jerusalem's Hebrew University showed that Israeli experts paint a subtler picture. One thing on which they seemed to agree is that an Iranian bomb is a danger—but will not be used soon. Top researchers such as Eldad Pardo of the Truman Institute and Ephraim Kam, a former military-intelligence colonel, concur that Iran's first area of concern is the Gulf region around it, not Israel. Iran sees its environs as "very dangerous", says Mr Kam: Iraq exploding on one side, Afghan drug runners, who have killed 3,000 Iranian police and troops in recent years, infiltrating the border on the other, and the Americans stomping around in both. For the moment, he thinks, Iran's desire for nuclear weapons is defensive, not offensive—but that might change once it has them.

But there are debates about just what “defensive” means to Iran. The fact that America took out Iran's two biggest local enemies, Saddam Hussein and the Taliban, has emboldened its regime's pursuit of what Mr Pardo calls a “new religion”—neither truly Shia nor Sunni, but a syncretic, millenarian cult. Its followers, including Mr Ahmadinejad, believe in the imminent return of the Mahdi (the Shias' “hidden” imam, who vanished more than a thousand years ago), worship high technology (ie, nuclear weapons) and want Iran to become the leader of a pan-Islamic regime in the region—before tussling with the Western world, including Israel.

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About sponsorship

Russia and Belarus

Loveless brothers

Jan 11th 2007 | MOSCOW
From The Economist print edition

AFP

Another Russian gas conflict was averted, but a short oil war broke out instead. Europe should take heed

Get article background

RUSSIA and Belarus, its ex-Soviet neighbour, are supposedly brotherly Slavic nations that are in the process of forming a union state. There are indeed some striking family resemblances. Both have irascible authoritarian presidents—Russia's Vladimir Putin and Belarus's brutal Alyaksandr Lukashenka—and both are inclined to risky diplomatic brinkmanship. This week that similarity propelled them over the brink and into an unfraternal trade dispute. Brief though it may have been, it had important implications for Russia's energy dealings with Europe, and perhaps also for the future of benighted Belarus.

A year ago, wrangling over the price of gas sold by Russia to Ukraine briefly diminished the flow of gas through Ukraine to Europe. At the end of 2006, Belarusian resistance to Russia's demand that it too pay more for gas threatened to unleash another so-called “gas war”. The modest economic growth that Mr Lukashenka terms the “Belarus economic miracle”—which along with his total control of the media and harassment of opponents has shored up his regime—has in fact been largely based on massively discounted Russian gas imports.

In the event, the two countries cantankerously reached a deal on an increased gas price just before their New Year's Eve deadline. But a few days later, an oil war broke out instead: Russia imposed new duties on the crude oil it exports to Belarus (refining and re-exporting it have been a crucial money-spinner for Mr Lukashenka, in effect another big Russian subsidy to the Belarusian economy). In revenge, Belarus demanded a transit fee on the oil that crosses Belarus to other European customers. The Russians refused—and Belarus began siphoning off oil in lieu of payment. On the night of January 7th Russia stopped pumping oil into a pipeline network that crosses Belarus and delivers 12.5% of the European Union's oil needs. Supplies to Poland, Germany and others stopped flowing.

The two countries' tactics may be similar, but their muscle is not. Mr Putin talked of cutting oil production and rerouting supplies. The Russians also threatened duties on all Belarusian goods, many of which would struggle to find markets elsewhere. On January 10th, after the presidents talked on the telephone, Mr Lukashenka blinked; the transit fee was lifted; and oil began to flow again before Europe was seriously affected. Nevertheless, the short but nasty spat has telling lessons.

One is that, with the Russians in this mood, Mr Lukashenka's grip on Belarus may be in jeopardy. While others reviled him, Mr Putin stood by Mr Lukashenka during his rigged re-election last year. But Mr Putin's motive was more aversion to European meddling in Russia's "near abroad", and to the so-called "colour revolutions" of the kind that overtook Ukraine in 2004, than affection for Mr Lukashenka. Personal relations between the two men are said to be rancid; a proper union between their two countries, a plan Mr Putin inherited from his predecessor, Boris Yeltsin, now looks fanciful. (Mr Lukashenka is said to have cooled on the idea after it became clear that he was unlikely to remain president after the merger.) In the absence of a reliable alternative, defenestrating Mr Lukashenka may not be part of Mr Putin's plan. But the new gas price alone could seriously damage Belarus's mostly state-owned factories and collective farms, and alienate ordinary Belarusians.

The affair also confirms the increasingly poisonous nature of Russia's dealings with many of its former vassals. Energy feuds are both a cause and a symptom of this trend. Georgia, Mr Putin's least favourite ex-Soviet neighbour, has been forced to accept a price for Russian gas that is more than twice the new one for Belarus. But supplies from neighbouring Azerbaijan are helping Georgia through the winter, and they may soon, says Nika Gilauri, Georgia's energy minister, replace Russian imports altogether. With its own oil and gas deposits in the Caspian Sea, Azerbaijan itself recently rejected what Hafiz Pashayev, the deputy foreign minister, describes as the "unreasonable" gas terms offered by Russia, and stopped importing Russian gas. It has also ceased sending its oil through Russian pipelines.

The most important lesson for Europe, however, is once again that over-reliance on Russian energy is dangerous. In principle, the Kremlin's drive to charge its neighbours more for gas is reasonable. Overall demand for Russian gas is outstripping supply; suppressing demand in the ex-Soviet states should make more gas available for export to the more lucrative European market. In the particular case of Belarus, the Russians deserve some sympathy. Until last year they were criticised for coddling Mr Lukashenka with preferential gas terms—and Belarus's re-export of duty-free Russian oil was, as one foreign observer in Minsk puts it, an obvious "scam".

But however reasonable its aims, Russia's bullying and capricious methods, plus its volatile relationship with energy transit countries and carelessness over the impact on European consumers, have rightly alarmed European leaders. Though Mr Putin pledged to "do everything to secure the interests of Western consumers," Germany's Angela Merkel spoke of damaged confidence. The Europeans should also note that Russia has emerged from its tussle with Belarus with a 50% stake in Belarus's gas pipeline (payment for which will partly offset the gas-price hike), strengthening the Kremlin's grip on Europe's energy infrastructure. An EU energy strategy released this week talked about the need for diversifying suppliers and dealing with them collectively: the quicker, the better.

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French politics

Sarkozy's goal

Jan 11th 2007 | PARIS
From The Economist print edition

For the centre-right's choice there are pitfalls on the road to the Elysée

Get article background

AFP

From the cupboard to the palace?

TWELVE years ago, an ambitious young French politician was cast aside by the newly elected president, Jacques Chirac, for having backed a rival candidate. Four years later, the same politician hit a career low with a miserable 13% of the vote as the head of his party's list at European elections. Over the past five years, President Chirac has kept him at arm's length, passing him over for the job of prime minister, grooming alternative Gaullist heirs and inventing rules to try to keep the centre-right party out of his hands. And yet, despite these efforts, the politician in question—Nicolas Sarkozy—will on January 14th be elected unopposed as the candidate for the Gaullist right in the presidential election due to take place in April and May.

This is quite an achievement. Mr Chirac is not used to being out-manoeuvred. And Mr Sarkozy has done so after a period of relative obscurity during his years "in the cupboard", as one of his advisers puts it. His popularity rating soared from a mediocre 26%, before becoming interior minister in 2002, to above 50% once in the job, giving him the support with which he went on to conquer the party.

With a mix of skill and luck, Mr Sarkozy has disposed of his rivals, one by one. Alain Juppé, a former prime minister, was found guilty of political corruption. Dominique de Villepin, the current prime minister, was floored by mass street protests last year against his labour reform. Michèle Alliot-Marie, the defence minister, ducked out of challenging him for the party nomination. The ruling UMP party, which Mr Chirac originally founded to further his own career, has been transformed into Mr Sarkozy's personal electoral machine. Today, his image beams down from flat-screen televisions and book covers in the entrance to party headquarters in Paris. A steady stream of one-time Chiraquien deputies has fallen in behind him—among them, this week, Mr Juppé.

If polls today are right, Mr Sarkozy should now make it through to the run-off, against Ségolène Royal, the Socialist candidate. Each would get 33% in the first round, according to TNS Sofres. Yet, a hundred-odd days from polling day, three potential pitfalls still lie in Mr Sarkozy's way.

First, the divided right. Despite Mr Sarkozy's tough talk on crime and immigration, the far-right Jean-Marie Le Pen remains a threat (although he has yet to secure the 500 signatures needed to appear on the ballot paper). Polls give Mr Le Pen about 12%, but this may underestimate his support. At a comparable point ahead of the 2002 presidential election, in which he won 17% and a place in the run-off, he was scoring only 6%, according to Ipsos, a polling agency. Meanwhile, at the political centre, François Bayrou, of the Union for French Democracy, could pick up 8-9%.

The second risk is a last-minute challenge from the Chirac camp. Although it seems improbable that the 74-year-old Mr Chirac will run again, a number of his lieutenants have said that they will not vote for Mr Sarkozy as UMP nominee. Among them are Mr de Villepin and Jean-Louis Debré, the speaker. They may still be hoping that a space opens for an alternative Gaullist candidate on the right, before the mid-March deadline for submissions. If not, mischievous minds suggest that the Chiraquiens would prefer to help Ms Royal step into the Elysée Palace, rather than hand over to Mr Sarkozy. After all, there is a precedent. According to the recent memoirs of an ex-president, Valéry Giscard d'Estaing, Mr Chirac quietly helped the Socialist candidate, François Mitterrand, to beat the centre-right Mr Giscard d'Estaing in the 1981 presidential election.

A third risk is that Mr Sarkozy frightens even his own voters. When polls dissect his image, his strengths are his energy, courage, dynamism and determination. By contrast, he scores less well when rated against adjectives such as nice, reassuring and seductive. The French plainly admire Mr Sarkozy, but they do not warm towards him, and seem to find him a bit scary.

Perhaps mindful of this, Mr Sarkozy has softened some of his language about radical change in recent weeks. He has swapped talk of plain "rupture" for the vacuous "tranquil rupture". He still promises to shake up welfare and pensions, but also stresses the need to protect the French from the effects of globalisation, laying into an "over-

valued” euro and the European Central Bank as well as deregulation.

There is one further problem: that Mr Sarkozy is linked in the public mind with Mr Chirac's controversial 12-year reign. The longer Mr Sarkozy continues to serve in government, the harder it will be to dissociate himself from the record he intends to condemn, and from the political class that the French so distrust. Anticipating his departure, Mr Chirac is said to be lining up a replacement as interior minister: candidates include François Baroin, a junior minister for overseas territories, or Dominique Perben, the transport minister. Mr Chirac knows a thing or two about the perils of running for president while still in government. In 1988, when prime minister, he did so—and lost.

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Turkey's religious sects

Sheikhs, lies and videotape

Jan 11th 2007 | SANLIURFA
From The Economist print edition

Islamic charlatans are straining belief

WHEN the bullet-riddled corpse of Ismail Hikmet Oncel was found by a cave in the south-eastern city of Sanliurfa last February, he was assumed to have been killed in a dispute over money. But last month the victim's brother came forward with evidence that Mr Oncel was murdered on the orders of a phoney Islamic sheikh. The sheikh, a 25-year-old former clerk, had duped Mr Oncel and many in his family into plying him with cash and gifts in exchange for his benedictions. He was even said to be sleeping with the victim's wife. Fearing exposure when Mr Oncel uncovered the alleged liaison, the sheikh decided the best recourse was to get rid of him.

The murder is only the latest of many scandals over fake Islamic prophets. Hatice Benlioglu, a housewife in Kutahya, and her husband, a biology professor, are facing up to five years in jail on charges of fraud and exploiting religious sentiment. Mrs Benlioglu persuaded locals that she had been ordained by Allah as a prophetess. Some sold their homes and cars to sate her greed. Others said they had been coerced into kissing her hands and feet, or going “even further”.

These revelations have prompted fresh scrutiny of the *tarikats* (Islamic fraternities). Despite being banned by Ataturk over 80 years ago, these remain influential. Many have roots in Sufism and have helped keep Turkish Islam determinedly tame. Their adherents are horrified at the emergence of money-grubbing charlatans using their name. Typically, the impostors prey on poor rural migrants who want a sense of community through membership of a *tarikat.* Their biggest shield is an oath of secrecy that is imposed on followers. This is rarely broken for fear of reprisals.

Yet in recent years several disgruntled disciples have been spilling the beans. In Sanliurfa, Mr Oncel's brother turned in a video of a ritual led by the sheikh, who claimed to be a leader of the 12th-century Rufai order. It shows Mr Oncel being nailed to a wall and lanced with skewers by howling fellow sect members. Two of them have been arrested and face life imprisonment on charges of killing Mr Oncel. The sheikh, now in hiding and being tried in absentia, faces a similar sentence for plotting the murder. Meanwhile, “Takva”, a newly released film satirising mercenary sheikhs, has become a hit at the box office.

“People are finally waking up and seeking justice,” says Ali Fuat Bucak, a prominent local lawyer. A greater wonder is that Mr Oncel's widow, Leyla, is still alive. Rigidly conservative Sanliurfa is notorious for “honour killings”, in which women who have stained the family reputation—for going to the cinema unchaperoned, or calling into radio talkshows, say—are murdered by male relatives. Leyla's alleged liaison with the sheikh “makes her a prime target”, notes Handan Erguvan, who is on the Sanliurfa bar association's committee to investigate honour crimes.

Instead, the locals' ire is directed at the fake sheikh for besmirching their religion. With each new scandal, the appetite for *tarikats* is waning. “The true fear among many here is that the sheikh will steal my wife,” comments Mrs Erguvan.

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German unemployment

O Lord, shave us

Jan 11th 2007 | FRANKFURT
From The Economist print edition

AFP

The preliminary interview

Premier and proletariat, whisker to whisker

Get article background

“GET yourself a wash and a shave,” Kurt Beck, the premier of Rhineland-Palatinate, told a shaggy example of the long-term unemployed on a recent walkabout in Wiesbaden, “and you'll have a job in three weeks.” Henrico Frank, a 37-year-old former tram-driver, swallowed his ire and took up the challenge. He had himself publicly cropped and shaved and reported to the premier's office across the river in Mainz. Mr Beck's staff hastily gathered eight job offers, all of which Mr Frank refused, mostly on medical grounds.

The stand-off between the premier, who is also national head of the Social Democratic Party (SPD), and the job-seeker has split the nation. Some see Mr Frank as a sly malingerer, others as a victim of the government's failure with Hartz IV, a two-year-old set of labour-market reforms.

On January 2nd scores of journalists and a handful of demonstrators converged on the main square in Mainz for a public shaving of more job-seekers—to tunes from Rossini's “Barber of Seville”—in a challenge to Mr Beck to find them jobs too. Mr Beck, who himself sports a designer beard, was on holiday.

The official number of unemployed in Germany has been falling. It dipped below 4m in November for the first time since 2002. But that is largely due to a cyclical revival in German business. A dysfunctional labour market is still one of the country's biggest problems: some 6.2m people are getting some kind of government support, of whom plenty have jobs. The government in many cases has been subsidising employers to create jobs or has been creating uneconomic work itself. And Mr Beck's SPD this week proposed yet more wage subsidies in the form of tax credits, to make work more attractive than the dole.

The Hartz IV reforms, which from January 2005 were supposed to force more energetic job-seeking, have done little to direct people towards appropriate work, says Andreas Hoffmann, a career adviser in Regensburg. Mr Hoffmann recently offered to come to Wiesbaden to give appropriate guidance to the job-seeking Mr Frank. But Mr Frank for the time being has withdrawn behind a phalanx of advisers. Meanwhile the activist group that organised the Mainz shave-in has its own motivational problems: judging by the mutual recrimination on its website, too few unemployed were prepared to get off their backsides to join the demo.

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Poland and the past

Tainted vestments

Jan 11th 2007 | VATICAN CITY AND WARSAW
From The Economist print edition

The Catholic clergy's hidden collaboration with communist rule

EPA

Forgive me my past

A JEWISH plot, a simple cock-up, or a necessary dose of reality? The scandal surrounding Stanislaw Wielgus goes far beyond the sad details, belatedly revealed, of his long-ago collaboration with Poland's communist-era secret police.

On January 7th, at the mass that was meant to mark his investiture as metropolitan archbishop of Warsaw, he tearfully announced that he was stepping down. After a month of rumour and a week of media hysteria, the Roman Catholic hierarchy publicly conceded that their candidate's past collaboration with the secret police was far more than the casual contacts he had previously admitted. These, he said, had been the price for scholarly trips abroad in the 1970s.

For the Pole in the pew, this is sickening. The Catholic church has been the repository of national feeling under centuries of foreign occupation and totalitarian rule. John Paul II, the previous pope, was the country's most honoured son, and ranks along with Ronald Reagan in the pantheon of anti-communist heroes.

Now a landslide of resignations is rumbling. Monsignor Wielgus was quickly followed by Janusz Bielanski, dean of Cracow's Wawel Cathedral, who faces similar allegations but also protests his innocence. The church estimates that a tenth of its priests were informers; others think that the proportion is higher.

Previously, this was covered up—perhaps to spare the feelings of John Paul. Now those who favour openness say they will expose errant colleagues who do not confess. A priest in Cracow, Tadeusz Isakowicz-Zaleski, is publishing a book exposing the collaboration of dozens of clergy, some of them senior. Such notes of contrast may ultimately make the church's image of picturebook heroics and saintliness more convincing. But they are a painful shock nonetheless.

Some pious Poles, particularly those close to the battily ultra-conservative (and unofficial) Catholic broadcaster Radio Maryja, believe that Monsignor Wielgus, an ally of theirs, is the victim of a plot by liberals, foreigners and (inevitably) Jews. But there are serious questions too. How could Pope Benedict have approved the candidacy of someone with such a shady past? If he didn't know, it suggests scandalous naivety and incompetence in his staff. That seems implausible, given that the Vatican's intelligence network in Poland has been formidable in the past.

If he knew and proceeded, it suggests recklessness or cynicism. Was the pope swayed by personal ties (he has known Monsignor Wielgus for three decades)? If so, that was a blunder comparable to his inept linking of Islam and violence. Perhaps he thought that the new Polish government's enthusiasm for screening public figures for links to the communist authorities was overdone. The pope said in Poland last spring that nobody should “sit in judgment on other generations.” After the first revelations late last year, the Vatican press office said on December 21st that the pope had “taken into consideration all the circumstances of [Monsignor Wielgus's] life” and still had “full confidence” in him.

On January 5th Vatican Radio was still assuring listeners that the archbishop would be invested as planned. Vatican sources said the pope decided the candidate should be “earnestly requested” to resign only late on Saturday, after reading a dossier that had apparently been sent from Warsaw in late December. Now the Vatican is pleading ignorance. “When Monsignor Wielgus was appointed, we did not know anything about his collaboration,” Cardinal Giovanni Battista Re, who heads the Vatican ministry dealing with bishops, protested this week. These statements are hard to reconcile.

The scandal raises equally uncomfortable questions for Poland's ruling Kaczynski twins, Lech (president) and Jaroslaw (prime minister). They want Poland to make a clean break from the communist past and hoped that vetting would reveal their liberal opponents' sleazy ties with the old order. It is a fair bet that they did not expect it to damage their allies in the church. Senior figures such as Cardinal Jozef Glemp, the primate of Poland, are now, oddly, echoing ex-communist complaints that vetting is a pretext for witch-hunts. The cardinal says that Monsignor Wielgus had no chance to defend himself and that the alleged collaboration was “unimportant” if it took place under

duress.

The truth is that opening poisonous, unreliable communist-era archives anywhere risks ruining innocent lives: they include malicious gossip, and private secrets. But keeping them locked up encourages manipulation and blackmail, and lets off the perpetrators of revolting betrayal. That is a problem worthy of the church's finest moral philosophers.

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Charlemagne

Tricky weather

Jan 11th 2007
From The Economist print edition

Peter Schrank

Germany's role in Europe is changing

Get article background

THE words “excitement” and “German presidency of the European Union” would not normally be uttered in the same breath. Yet such are the strange tastes of Europeans that the country's period in charge of the EU's agenda-setting presidency is being greeted with front-page news stories, animated televised discussions and a sort of dignified hoopla.

After a string of presidencies ranging from the disastrous (Luxembourg's, 2005) to the merely boring (Finland's, 2006), Germany's stint—which coincides with a confidence-boosting economic upswing and chairmanship of the Group of Eight (G8) industrial economies—sends out a message that, as an influence on world affairs, Germany is back. Many Europeans think all this can rescue the EU from its malaise. In the view of Bill Drozdiak, president of the American Council on Germany, this is Germany's big moment.

Yet high expectations of the German presidency are likely to be thwarted. This is not just because the government is being unrealistic in its aims, nor because it wants to do the wrong things (though in some areas it does). Rather, the EU itself has changed, and German influence with it.

It is often said that the EU's inexorable enlargement means no country can now “make the weather” in Europe, as Germany and France once did. That is true, but the growth of the club still leaves Germany first among an increased number of equals. As the largest euro-zone economy, it directly influences the fortunes of the others—and its recovery has generated a mood-shift abroad as well as at home. Germany was the only country strong enough to delay the death of the lamentable constitution; keeping it alive is testimony to an enduring influence.

In Angela Merkel, Germany also has one of the few EU leaders able to translate national power into international influence. She has built a reputation for herself among European peers as a straight-shooter who is consistent in her views (being semi-tough towards Russia, for instance). Whenever things went wrong for her predecessor, Gerhard Schröder, he used to campaign against “Brussels” (Jacques Chirac did the same in France). By resisting that temptation, Mrs Merkel has persuaded the rest of the EU that she wants to make the club work.

To some extent, those beyond the charmed circle of European governments may well think that she should indeed exert more influence. One of her first pronouncements as EU leader was to say she wanted a transatlantic free-trade area, tearing down non-tariff barriers between America and Europe. She has also pushed—in the teeth of opposition within her own coalition—for market reforms at home, and has begun to demonstrate that “reform” and “large continental economy” are not mutually exclusive terms. She is a convinced Atlanticist, a market reformer and a free-trader who has re-established the image of the “Good Germany” within the EU. What's not to like?

Well, for a start, some of the policies. Mrs Merkel put the constitution at the top of her to-do list, which is not just undesirable (in Charlemagne's view, anyway) but unrealistic: nothing much is going to happen in the next six months because of the French presidential and legislative elections. The perennial idea of a transatlantic free-trade area sounds better but may well run into the obstacle of American domestic politics: with free-trade-sceptical Democrats taking over Congress, it is not an auspicious time for clinching trade deals.

The Germans are also trying to do too much. In addition to their constitutional and free-trade proposals, they want a new treaty with Russia; a renewed effort from the peace-seeking quartet in the Middle East; new energy and climate-change policies; a round of red-tape cutting; and revamped policies towards the EU's eastern neighbours and Central Asia. One or two of these aims might be achievable. Not nine.

Shifting gears

At least as important as the intrinsic policy problems is the changing nature of influence within the EU. Once upon a time, Germany and France were the twin engines of Europe—or, rather, Germany was the motor and France did the steering. Their partnership worked not because they agreed on everything and rammed what they wanted past unwilling partners. Rather, they were listened to because they differed, because their differences reflected the spread of opinions in the rest of Europe, and when they were able to reconcile their differences, other countries could usually accept the compromise. The Maastricht treaty was a perfect example: it happened when France's desire for more control over monetary policy clashed with Germany's desire for greater political integration; the euro was the result.

This changed under Messrs Chirac and Schröder. Where Franco-German partnership continued, it was based on things the countries agreed on anyway—opposition to the Iraq war, rejection of radical farm reform, dislike of José Manuel Barroso as president of the European Commission.

Paradoxically, unanimity of opinion reduced the duo's influence: others treated them as just another interest group, albeit a big one. It was still necessary to find common ground in the EU—arguably, more important when the club expanded—and that role devolved to the institutions of the union: the commission drew up the budget compromise in 2005 and worked out how to punish Turkey in December 2006; the European Parliament hammered out the law liberalising services in 2006 and the recent regulation of the chemicals industry.

So however deft Mrs Merkel proves, she will not have the clout Helmut Kohl had in his heyday. Then, Germany was half of a partnership that directed Europe; now it is the most important single country of a club in which other members can decide the agenda. It is a position from which Germany can influence the EU but not direct it.

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The civil service

From Rolls-Royce to old banger

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From The Economist print edition

David Simonds

As more evidence of incompetence emerges, the government's reforms look too timid. The main problem remains chronic over-centralisation

BRITAIN'S civil service has often been lampooned, but the man in Whitehall who knew best did at least command a wary respect. Sir Humphrey Appleby, the wily permanent secretary at the top of the Department of Administrative Affairs, ran rings round James Hacker, the hapless politician in “Yes Minister”, the 1980s television sitcom.

More and more, however, people are criticising civil servants for their incompetence rather than laughing at their cunning. Less than a year after John Reid, the home secretary, described the Home Office as “not fit for purpose”, more bungling has come to light. The records of hundreds of British nationals convicted abroad of serious offences have not been put on a police database used to vet people who want to work with children or vulnerable adults. Ministers say they were unaware of this until January 9th, although senior police had written to Tony McNulty, the police minister, in October about difficulties in dealing with foreign convictions.

The Home Office's abysmal record is reflected across the wider public sector. The inadequacies of state schools were highlighted this week when it emerged that Ruth Kelly, a former education secretary, had decided to educate privately one of her children who has special needs.

These and other reverses have caused a fit of introspection among both politicians and senior civil servants. If so many good intentions backed by so much extra money under Labour have failed so dismally, maybe the cause lies within government itself. But who is to blame?

One camp puts the politicians in the dock. The charge: reckless driving of a civil service once renowned as a sleekly purring Rolls-Royce. Under Margaret Thatcher and Tony Blair, ruling parties with big majorities have failed to respect the old convention that allowed civil servants to speak truth to ministers without fear or favour. As Whitehall has become meekly compliant with ministerial whims, “Yes, minister” has ceased to mean “No, minister”, and poorly designed and executed policies have proliferated.

That is the gist of criticisms levelled by Sir Christopher Foster, a former adviser to both Conservative and Labour governments. In his report “Why Are We So Badly Governed?”, he deplores the poor quality of government-policy statements such as white papers, which have become “incoherent, poorly argued and evidenced”.

The prime minister's “sofa style” of government has also come in for stick for failing to heed the importance of what Whitehall old hands call “process”—formal consultation and record-taking. The review in 2004 of intelligence on weapons of mass destruction, headed by Lord Butler, a former head of the civil service, worried about “the informality and circumscribed character of the government's procedures which we saw in the context of policy-making towards Iraq”.

In contrast, another camp blames Sir Humphrey. The civil service may once have been the fabled Roller but it has now become an old banger. According to a recent report from the Institute for Public Policy Research, Labour's favourite think-tank, “Whitehall is poor at reflecting on its purpose, strategic thinking, dealing with inadequate performance, managing change effectively, learning from mistakes or working across departments.”

Guy Lodge and Ben Rogers, the authors, argue that these inadequacies are rooted in the hallowed but now moth-eaten doctrine of ministerial responsibility. Under this convention, ministers are accountable to Parliament and civil servants to ministers. This allows each to hide behind the other (though permanent secretaries answer as accounting officers for their departments to a committee of MPs).

Re-tuning the engine

Neither camp is necessarily right. Gordon Brown, the chancellor and likely successor to Mr Blair as prime minister, and Sir Gus O'Donnell, the head of the civil service since 2005, seem to accept that there is room for improvement on both sides. Mr Brown, who called this week for “a new style of government”, is expected to adopt a more formal way of conducting affairs. Sir Gus has instigated “capability reviews” across Whitehall. Although these fall short of full independent scrutiny, they have highlighted a number of weaknesses, especially in the delivery of services.

Neither of these approaches is ambitious, but there is a case for caution. For example, a bolder reform would draw a divide between policy, for which ministers would carry the can, and delivery, for which a more managerial cadre of civil servants would be accountable. This model has worked at the Bank of England since it was given operational control over interest rates to meet the government's inflation target. But Christopher Hood, professor of government at Oxford University, says that it would be hard to draw such a line more generally in the public services and that the deal would be likely to break down in mutual recrimination.

Sir Gus agrees that it would be difficult to separate out strategic objectives and implementation, pointing out that the “how” can often be quite political. He dismisses the idea of a lost golden age in the civil service, saying that it has got better and more professional, with, for example, qualified finance directors now in most departments. He says that the decision to conduct and to publish the capability reviews is an important step forward.

Arguably the most important change the civil service needs to make is to curb its itch to centralise. The top-down control of British public services is exceptional, according to Christopher Pollitt of Leuven University in Belgium. Between 2001 and 2005 he took part in a study of Britain, the Netherlands, Sweden and Finland, comparing areas of government such as the prison service. All four countries used indicators to manage performance but “what was startlingly different was the way they were used in Britain.” In the other three countries no one believed they could steer by indicators alone whereas in Britain “the regime was applied in a harsher, more mechanistic way.”

Labour does at least now pay lip-service to the need for more local discretion in public services. But handing back real power seems a lost cause. Britain may have lost an empire overseas, but politicians at Westminster and civil servants in Whitehall have rebuilt one at home and they will not let go.

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Human-animal embryos

Inconceivable

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Muddled thinking threatens Britain's lead in stem-cell research

Get article background

IT IS not often that applications for permission to do scientific research cause a political furore, but they did this week. On January 11th, after days of hysterical headlines, the Human Fertilisation and Embryology Authority (HFEA), which regulates stem-cell research, shirked a controversial decision over whether scientists should be allowed to produce such cells by placing DNA from human skin cells inside hollowed-out, unfertilised eggs from rabbits or cows. They want to consult further.

Two things are at issue. The one that gets most attention is whether combining human and animal cells in this way breaks some inter-species taboo: tabloid references to “Frankenbunny” and “moo-tant” suggested that scientists would create living human-animal chimeras. The second, less cited, is the future of British stem-cell research. So far Britain has led the field; this delay will put its pre-eminence at risk.

Stem cells—undifferentiated cells that have the ability to grow into any other type of cell—are crucial in the study of diseases that have a genetic factor, such as multiple sclerosis and motor-neuron disease. By using DNA from people with such ailments, scientists should be able to create stem cells with deliberate genetic flaws. These could then be used to grow, say, nerve cells to compare with those produced from stem cells without the flaw. Such science may offer the earliest cure for horrible diseases that affect more than 1m people in Britain alone (see article).

When the HFEA was created in 1991, it was the world's first regulator in the still-infant field of assisted reproduction. The original “test-tube baby”, Louise Brown, had been born in Britain 13 years earlier, and the government hoped that an independent regulator would be able to make controversial decisions without embroiling politicians in constant rows about reproductive ethics. By granting the regulator a fair amount of latitude, it also sought to ensure that the country would retain its lead in a new and promising technology.

Sixteen years later, the HFEA is widely thought to have balanced caution and innovation successfully. But it is struggling to regulate science that was not even dreamed of in 1991. Stem-cell research, like assisted reproduction before it, combines apparently limitless promise with a breakneck pace of change.

Human therapeutic cloning, as the science in dispute is known, is already licensed in Britain, but so far only if emptied-out eggs from women are used. But human eggs are scarce, and many question whether such a precious resource should be used as nothing more than casing for genetic material; hence the desire to work with rabbit and cow eggs.

The issue has been particularly difficult for the HFEA. It is well aware of the importance of the research, and that it is sure to go ahead somewhere, if not in Britain. But it also knows that the way in which assisted reproduction and stem-cell research are regulated is soon to change. In December the Department of Health published a white paper setting out proposals to revamp regulation, and legislation is expected in 2008. One proposal is to give Parliament the power to determine whether research involving human-animal embryos should go ahead.

The singling out of this particular science has puzzled and alarmed researchers and representatives of those suffering from genetic diseases. Now they are fighting a vigorous rearguard action. On January 10th a letter from a stellar collection of scientists, including Nobel prize-winners, was published in the *Times*, calling for such research to be allowed.

Supporters think the government has been too influenced by negative responses to the low-profile public consultation that preceded the white paper. Many respondents had strong opinions about assisted reproduction but seemed neither to know nor care much about stem-cell research. Others apparently oppose all scientific meddling with the origins of life on principle or simply regard procedures using animal material as too revolting for words.

Some may also have confused therapeutic with reproductive cloning. In the former, after the newly-formed embryo has developed for a few days its stem cells are harvested in a process that ends its ability to develop further along the path to independent life. In the latter, the embryo is implanted in a womb and may grow to maturity, as did

Dolly the sheep. Theoretically, a human could be cloned this way—but this is already illegal in Britain, whether or not animal material is used.

Scientists hope the parliamentary debate that must precede new legislation will clear up any misunderstandings and allow supporters to put the case for this essential development in stem-cell research. They have friends in high places. On a trip to California last July, Tony Blair visited biotechnology firms and boasted of Britain's sensible and stable regulatory regime. In his valedictory party-conference speech in September, he highlighted again his government's moral and financial support for stem-cell research. And on January 5th, while touring a hospital, he broke off from praising the NHS to say that useful stem-cell research should be allowed.

But this week's dodge will have an unfortunate effect on research. Frankenbunnies are not around the corner, but longed-for discoveries just might have been.

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Defence spending

Under PFIre

Jan 11th 2007
From The Economist print edition

How Britain is managing to fight two wars on a peace-time budget

BRITAIN has asked much of its military in recent years, deploying thousands of soldiers in Iraq and Afghanistan where they have fought in some of the most intense battles since the Korean war. But it has done so on a shoestring.

AFP

In hock for his kit?

A decade of defence cuts (now being reversed) has trimmed defence spending to about 2.5% of GDP, its lowest level since 1930, and left commanders in the field with fewer men, helicopters and armoured vehicles than they need. Last month a coroner ruled that the first British soldier shot and killed in Iraq in 2003 had died because of “unforgivable and inexcusable” delays in supplying bullet-proof jackets to the front line.

Like any household whose budget is under pressure, Britain's defence establishment has turned to buying on credit. It has become one of the government's most enthusiastic adopters of the Private Finance Initiative (PFI). In December the Ministry of Defence (MoD) revealed that it had already signed contracts with private suppliers worth about £26 billion ($50 billion) over the next 30 years. Among the things it gets in return are a shiny headquarters building in Whitehall, new barracks at Aldershot and training for its ranks of newly minted helicopter pilots and submariners.

Bigger deals are on the way. Civil servants and generals are currently poring over plans worth more than £35 billion over three decades, which is a bit more than the annual defence budget itself. Only the NHS, which is rebuilding hospitals, has a bigger pipeline of PFI deals.

Until now most PFI deals have been for large capital projects such as roads, prisons and hospitals, where contractors have built a facility and then tagged on the provision of “soft” services such as cleaners and a maintenance man. It seems that they have been most successful with projects that provide an easily measured “hard” output—such as a school, for instance, with a roof that keeps the rain out.

But the armed forces are becoming ever more daring, vastly expanding the ambit of PFI deals. Within the next few weeks the MoD plans to announce the winner of a contract worth more than £10 billion for taking over most of the training of soldiers, airmen and sailors. In November it selected a group of companies to train fighter pilots in a contract worth about £12 billion. And the ministry is negotiating the final details of a £13 billion aerial-refuelling contract for the private provision of airborne tankers for jet fighters and bombers on their way to the front line.

The attraction is that under PFI deals the state does not have to borrow to pay capital costs at the start. Instead it gets to spread its payments over the life of the contract, in much the same way as one might lease rather than buy a car.

Enthusiasm for such deals should be tempered, however. Fixed payments on PFI contracts are consuming an increasing share of defence spending. This has some advantages: one is that the generals need not worry about

finding money in the budget each year to keep their new headquarters freshly painted. But the pluses must be set against a loss of flexibility and freedom to allocate resources in an organisation that can never know for sure what war it will next be called upon to fight.

Moreover, defence PFI deals have also proved poor at transferring risk from the government to suppliers. The National Audit Office (NAO), a spending watchdog, found last year that the costs of a PFI contract for satellite communications had increased by £885m to £3.6 billion, partly because the price of satellite insurance had soared. Yet the contractor had agreed to provide insurance at a fixed price as part of the deal. Another NAO study found that the price of the MoD's refurbished offices in Whitehall had increased by 15% after the government had selected a final bidder because interest rates had changed and the building proved to be in worse shape than expected. Yet these were risks that ought to have been assumed by the contractor.

Fans of the PFI argue that these failures do not reflect any inherent flaw in the model. They say the soldiers and civil servants who negotiate the contracts have a poor grasp of risk. Nor—unlike derivatives traders, for example—are they motivated by the prospect of a reward if they succeed in drafting a watertight deal or a penalty if contract costs increase. This leads to a bias towards selecting the cheapest bid, even if it must subsequently be renegotiated.

The Treasury has long been criticised by those who believe that the PFI is little more than a wheeze to get debt off the public balance sheet. But it has been able to argue (not always plausibly) that these deals are entered into only when they provide better value than old-style procurement (which, to be fair, also has its problems). On defence the civil servants have abandoned that fig leaf. Ministers have let slip that they could not afford to revamp their training facilities if the government had to assume the costs at the start, rather than spreading payments over decades.

This leads to a disturbing conclusion. Although PFI deals may offer value, that is not the yardstick by which they are being measured. Instead, the pressure of fighting two wars on a peacetime budget seems to be driving the government to enter into hasty deals, the true costs of which will become apparent only in years to come.

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Paying political parties

It depends who's counting

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Parties are either generously funded by the state or poorer than church mice

BRITAIN gets its democracy cheap. A ranking by Karl-Heinz Nassmacher at the University of Oldenburg puts the Mother of Parliaments in a bargain-basement group of assemblies that includes the main legislative chambers in Canada, Australia and the Netherlands. (Elections in Israel, America and Japan are more extravagant affairs.)

Even so, political parties struggle to meet their costs, with results that have recently been embarrassing. A review set up by the government and due to report this month seems likely to suggest more state funding to save parties the indignity of so much tin-rattling. That would be either a controversial new subsidy to prop up floundering organisations that do not deserve help, or continuation of a trend that has existed for some time. It depends on how state support for parties is counted.

Cash funding is currently small. The ruling party gets all of its policy-development work done free by the civil service and a small army of political advisers on the government payroll. But for the past six years a policy fund worth £2m a year has been available to the opposition parties in Parliament to help them develop ideas such as how to restructure the National Health Service, again.

In addition to this, the opposition parties in the House of Commons get “Short money”, named after the leader of the house when it was introduced, to help pay for foreign travel, the leader of the opposition's office and the parties' general parliamentary doings. This started in 1975, and has steadily increased in value since then. In the latest financial year, the Tories received around £4m in Short money and the Liberal Democrats £1.5m.

Opposition parties in the House of Lords receive much less in “Cranbourne money”, which was introduced in 1996 and earmarked for similar use. Then there is about £2m, distributed between the three main parties, from the Westminster Foundation for Democracy (which is financed by the Foreign Office), to help parties spread democracy abroad. The annual total of direct state funding to the three main parties at Westminster comes to a modest £9.5m, or under a sixth of their combined income.

Parties get other non-financial help, though, particularly in an election year. And it is here that the counting gets tricky.

One reason why general elections in Britain can be run for less than £20m per party—an amount that would not have been sufficient to fight one of the more expensive races for a seat in America's Senate last year—is that broadcast advertising is banned. Instead, the terrestrial television channels are obliged to air party-political broadcasts free. If parties had to pay for these, they would cost an estimated £68m—though they would probably be shorter, punchier and cheaper. Candidates are also entitled to post an election address to every voter, which is delivered at a total cost to the taxpayer of £20m.

If all these bits are added in, then state funding for parties in an election year is greater than the typical annual incomes of Labour, the Conservatives and the Lib Dems combined. And that's before the costs of running an MP's office as well as housing and travel expenses are taken into account. Some subsidy is essential if legislators are to do their job but MPs also use this funding to build electoral support in their constituencies. None of the subsidy comes without strings, however. Which is why the parties are now pushing so hard to get some that does.

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Rubbish

Up in smoke

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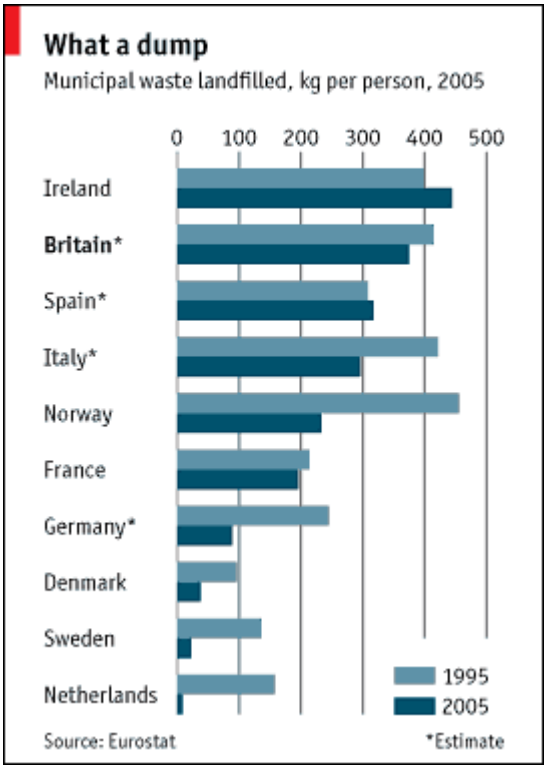
Tough landfill targets prompt a return to flaming rubbish

ON JANUARY 8th the High Court threw out a case brought by Ken Livingstone, the mayor of London, and Bexley borough council opposing the construction of a £230m rubbish incinerator at Belvedere, on the banks of the Thames. Though the judge described the objections as “totally without merit”, Mr Livingstone plans to appeal. The next day a similar plant was approved in Hull, again over the objections of local residents. And these are not the only such plans: 23 new incinerators, from Jersey to Perthshire, are on the drawing board (18 others are already operating), and campaign groups are fighting to stop them.

Burning rubbish has been part of Britain's armoury of waste-disposal techniques for years: about a tenth of the country's rubbish goes up in smoke. But there is a renewed official interest in the technology as tough European targets on waste disposal begin to bite. Brussels requires member states to reduce the amount of biodegradable rubbish sent to landfills to 75% of their 1995 levels by 2010, and to 35% by 2020. Disposing of rubbish that way produces harmful gases as well as chemicals that can leach into the soil.



At first, ministers had hoped to reach these targets by encouraging recycling, which has risen from 13% to 27% of all municipal rubbish in five years. But Britons are throwing away more stuff each year, so kicking the landfill habit has proved difficult (see chart). Few people now believe that Britain's landfill targets will be met. The National Audit Office, a spending watchdog, warned last year that local governments faced EU fines totalling as much as £200m. The government is now reviewing its waste-disposal strategy, and its conclusions—already two years late—are expected later in the year.

The prospect of such hefty fines has prodded local authorities into looking for alternatives to recycling. Incineration seems attractive to many: the technology is well-understood and it requires no change in public behaviour. Boosters argue for it on climate-change grounds. They point out that biodegradable waste in a landfill releases methane, a potent greenhouse gas, while incinerators—which can also generate electricity from combusting rubbish—emit mainly less-damaging carbon dioxide.

But most objections focus on local pollution. Campaigners worry that incinerators produce dioxins (a highly toxic family of chemicals that can cause cancer and birth defects) and tiny particles of soot (also carcinogenic).

Officials, on the other hand, argue that such risks are wildly overstated. A government study concluded that the dangers from rubbish-burning were small: the department for the environment says that Bonfire Night produces more dioxins and particulates in a single evening than every incinerator in the country emits in a year. Officials and manufacturers also claim that new scrubbing technologies mean modern incinerators emit far fewer noxious nasties than their older counterparts, many of which have been closed down as air-quality rules have been tightened.

Such assurances cut little ice with the locals, who accuse officials of underplaying the problem. Historically, it has been difficult to monitor emissions properly, and in any case they believe the Environment Agency, which polices incinerators, is underfunded. Indeed, regulators are sometimes flatly ignored: the plant in Perthshire was approved in December despite objections from the Scottish Environmental Protection Agency. And sceptics point to a plant in Kirklees that exceeded its pollution limits after a boiler accident—evidence that incinerators are not as safe as their manufacturers claim.

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Elected mayors

Power politics

Jan 11th 2007
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The government wants strongmen to run local councils

THREE British cities will celebrate their democratic history this year in an orgy of fireworks and Morris dancing. It is 800 years since Leeds, Liverpool and Cambridge were granted charters giving their citizens basic civic freedoms. Given such enthusiasm for self-determination, one might expect people to jump at the chance of electing their own mayors, a constitutional innovation that has been on offer since 2000.

But take-up has been lukewarm. Of the 376 districts across England and Wales, only 34 have held referendums on whether to change to directly elected mayors (separately, Londoners voted to create a region headed by Britain's only big-city mayor). Of those, just 12 voted yes, with turnout as low as 16%. Democracy, it seems, is something Britons would rather celebrate than practise.

PA

The mayor's on the right

Unperturbed, the government is still pushing the idea. A bill now before Parliament would rig the system to make it easier to switch to a mayoral model and harder to get rid of one. Councils will no longer have to hold a referendum to decide to have directly elected mayors; instead they need merely "consult" voters. Mayors can be abolished if enough signatures supporting a plebiscite are collected, but this will be allowed to happen at most once every ten years, rather than every five years as at present.

Phil Woolas, the local-government minister, hopes the number of mayors will grow "exponentially" once people witness the strong leadership they provide. "My experience of local government is that people always oppose change, then when change happens they all follow it," he says. Steve Bullock, Labour mayor of Lewisham since 2002, says he gets more done now than he did as council leader. "On high-risk, high-profile decisions I can stick my neck out more easily, and I can take more risks than if I were leading a group of people," he says, citing a recent dispute over the site of a new sixth-form college. A similarly ruthless decisiveness may help to keep London's mayor, Ken Livingstone, afloat (see article).

Cynics say the government's enthusiasm for one-man executives (11 of Britain's 12 mayors are male) is due to their pliability. In Stoke-on-Trent, where a battle is underway to abolish the office, campaigners say the Labour mayor is in the pocket of regional party bosses.

Yet this is hardly the norm. Four of England's 12 mayors are independents, many of whom have broken through local Labour Party hegemony. Middlesbrough's steely "Robo-Mayor," formerly detective-superintendent Ray Mallon, horrified party officials when he demolished the Labour candidate to win a 17,000 majority in 2002. In Mansfield a former newsagent, Tony Eggington, is so popular as an independent mayor that 27 of the town's 46 councillors have since gone independent themselves. Even Stuart Drummond, a former football mascot who was elected mayor of Hartlepool as "H'Angus the Monkey", has made a success of his post. He was re-elected in 2005, his majority nearly 10,000 higher.

It is still hard to stir up local enthusiasm for switching to an elected mayor, according to Liam Fogarty, a former BBC journalist who is gathering the 17,100 signatures needed for a referendum in Liverpool. And the government's plans to make it easier may not have much effect since, he says, "turkeys don't vote for Christmas."

Ministers realise this. So they want to allow slates of candidates to run for joint executive control of councils, which may prove more popular with parties. And the bill also aims to strengthen the authority of indirectly elected council leaders, by having them serve four-year rather than one-year terms.

If all else fails, there is always bribery. Councils that go mayoral could be given extra cash "to help implement their policies," insiders suspect. It would be a curious way to strengthen local democracy.

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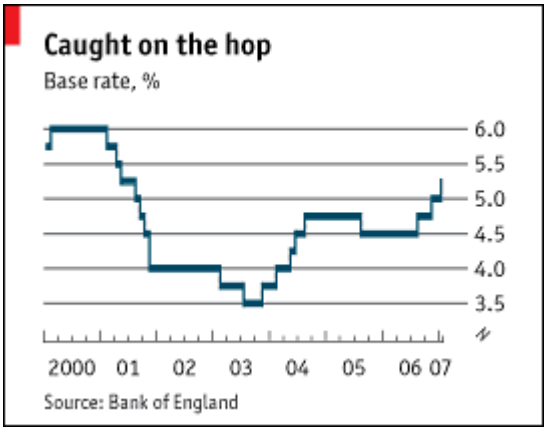
Interest rates

A surprise

Jan 11th 2007
From The Economist print edition

A rise startles the markets



MERVYN KING, the governor of the Bank of England, has often declared his ambition to make monetary policy boring. But for the second time in just a few months, the bank's rate-setters have caught the City on the hop.

The first bout of excitement occurred last August, when the monetary-policy committee raised the base rate from 4.5% to 4.75%. By contrast the next increase, in November, to 5.0% was a bit of a yawn, labelled a “done deal” by City traders before the meeting. But this week the bank surprised the financial markets again by raising the base rate by another quarter-point to 5.25%.

As in August, it was the timing of the increase that was unexpected. The City thought the bank would delay until February, when the committee would take stock of the economy as part of its quarterly review of inflation prospects. The rate-setters would also by then have had more information about the economy, in particular about retail sales over the holidays and pay deals, many of which are settled in January.

In the event, the committee thought it had sufficient grounds to tighten monetary policy again. One argument for the bank to have stayed its hand would have been sluggish consumer demand. However, early evidence suggests that consumers have been busy shopping in recent weeks. Another worry for the bank is that deals announced so far this month appear to show wages are on the rise.

When reaching its decision on January 11th, the committee had an advance estimate of the inflation figures, due out on January 16th. The City will now be on tenterhooks to see whether consumer-price inflation has jumped above 3.0%. If it has, Mr King must write to the chancellor explaining why it is that far above the 2.0% target.

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Bagehot

The chancer

Jan 11th 2007
From The Economist print edition

Steve O'Brien

London's mayor, Ken Livingstone is a serial risk-taker. He may have taken one too many

Get article background

IS THERE a more enduringly interesting politician in Britain than Ken Livingstone, London's mayor? Tony Blair has his moments, but in comparison with Mr Livingstone, he and Gordon Brown seem straightforward to the point of dullness. As for David Cameron, it is absurd to think of putting him in the same category as a man who first ran London when Ronald Reagan was in the White House and the Tory leader was a teenager.

Unusually for a city mayor, Mr Livingstone conducts his own foreign policy. This weekend he will host a conference entitled “A World Civilisation or a Clash of Civilisations”. It will ponder such issues as “counter-terrorism and torture”, “democratic solutions for the Middle East” (Mr Livingstone looks forward to seeing the Saudi royal family “swinging from lamp posts”) and whether there is such a thing as “progressive colonialism”.

This comes a few weeks after Mr Livingstone's announcement that London will mark the 50th anniversary of the Cuban revolution with street parties and a celebration of Fidel Castro's life in Trafalgar Square, all funded by the mayor's office. Meanwhile, Mr Livingstone's officials are hammering out a deal with a more recent Latin American hero, Hugo Chávez, to secure Venezuelan oil for London's buses in exchange for “consultancy services”. Mr Chávez recognised a kindred spirit following Mr Livingstone's remark a little while ago that there was no greater threat to humanity on the planet than President George Bush.

If that were all there was to Mr Livingstone, he would not twice have been elected London's mayor. But he has the ability to combine the views of a bedsit revolutionary with pragmatism, guile and rare political boldness.

In introducing the congestion charge to central London in 2003, he demonstrated all three qualities. Intensely controversial at the time, it was implemented flawlessly and appeared to achieve its aims of reducing traffic and generating funds for more buses. Even this newspaper, which dislikes most of Mr Livingstone's views, endorsed him for a second term in 2004.

Although *The Economist* was less enthusiastic about London's winning bid for the 2012 Olympic Games, nobody could deny that it too was a triumph for the mayor. Swallowing his hatred of competitive sport, Mr Livingstone seized upon the opportunity to use the games to regenerate a large swathe of east London. He was also partly responsible for talking up what may have been the biggest single reason for the victory over Paris—London's cultural diversity. And cleverly, Mr Livingstone looks to have succeeded in limiting the cost for Londoners to a 38p-a- week “precept” on their council tax, dumping the rest of the escalating expense in the lap of central government.

Once a pariah in New Labour circles, Mr Livingstone, for all his embarrassing eccentricities and the hatreds he still inspires (not least in the unforgiving breast of Gordon Brown), is now seen as a success. So much so that the government is pushing through Parliament a bill that will greatly increase the mayor's powers over planning and housing at the expense of London's boroughs. In effect, Mr Livingstone will become a virtually unaccountable one-man planning committee for London—a "municipal Bonaparte" according to appalled Tories, who point to the mayor's cosy relationships with property developers.

But as Mr Livingstone prepares to campaign for a third term next year, he may be losing his touch. This month 33% fare rises on London's buses and tubes were announced by Transport for London (TFL), a body controlled by Mr Livingstone, making them the most expensive capital-city fares in the world. The money is to pay interest on the bonds sold by TFL to finance what some consider to be a reckless expansion of bus services.

Next month Mr Livingstone will more than double the congestion-charge zone by extending it westwards. He has pushed this through in the face of local opposition and the warnings of his advisers that the revenues raised by the extension will not cover the costs of running it. There is also confusion about what it's for. Congestion is a problem on only 5% of the new zone's roads. So cutting environmental pollution has become a major objective of the scheme, with charges based on engine size due to be introduced in 2009—which raises the question of why poorer, more polluted east London is not to be similarly blessed.

There is disillusion too about increasing journey times in the original zone even though the charge was raised to £8 ($15.50). The reason is that Mr Livingstone has grabbed road space for pedestrians by paving over Trafalgar Square, artificially restricting road widths and re-sequencing traffic lights across the capital. Even the mayor's buses travel at little more than walking speed.

Over the rainbow

Mr Livingstone may feel he can ignore the mainly Conservative and Liberal Democrat voters of west London, but he has recently taken an even bigger risk with his "rainbow" electoral coalition of gays, feminists, Sikhs, Hindus, Jews and secularists by sucking up to Sheikh Yusuf al-Qaradawi, a Muslim theologian.

Mr Qaradawi, whom Mr Livingstone lauds as the "leader of a great world religion", supports the murder of Israeli children by Palestinian terrorists, praises female genital mutilation and thinks that homosexuals deserve to die. However, Mr Livingstone is convinced that, just as he was right to want to engage with an IRA that was bombing London in the 1980s, he is right now to seek an accommodation with radical Islam.

For all his political gifts and (to some) charm, Mr Livingstone should be beatable next year. It is by no means all his fault, but since he became mayor, booming London has become a less pleasant and more stressful place to live. Such is his reputation, however, that the Tories are struggling to find a credible candidate to field against him. Repulsive and brilliant in equal measure, he is the great survivor of British politics.

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Israel and the Jews

Second thoughts about the Promised Land

Jan 11th 2007 | JERUSALEM, LONDON AND NEW YORK
From The Economist print edition

AP

Jews all around the world are gradually ceasing to regard Israel as a focal point. As a result, many are re-examining what it means to be Jewish

“THE choice for our people, Mr President, is between statehood and extermination.” Thus wrote Chaim Weizmann, head of the World Zionist Organisation, to Harry Truman, president of America, on April 9th 1948. Five weeks later Weizmann was elected president of the newly declared Jewish state. Truman granted recognition within hours.

Weizmann's words were only partly true. European Jewry faced extinction at the hands of the Nazis, but Jews who had fled eastern Europe's pogroms for America two generations earlier already felt safe and established there. Still, even for them, Israel became the centre of the Jewish world—not merely as a place to run to if things got bad, but as part of what they were. If their grandparents' Judaism was about religion, learning and community, theirs meant something else: being a nation that had lost a third of its people but gained a homeland.

Right from its foundation, the existence of Israel created new questions for world Jewry. If Israel's purpose was to accommodate a nation that could never be safe or fully itself in any other place, was it still possible for self-conscious Jews to flourish in “exile”? Some felt Jews had only two options: assimilate in the countries where they lived, or identify very closely with the new state, if not migrate there.

Another dilemma arose from the idiosyncrasies of religious life in the new state. Many Israelis are secular—but religious authority in the country is in the hands of the Orthodox. Where does that leave Jews outside Israel who practise more liberal forms of the faith? And the biggest dilemma is this: however proud world Jewry felt of Israel during its early struggle to survive, how should a conscientious Jew react to Israel's new image as military giant and flawed oppressor? Faced with these puzzles, Jews all over the world are finding new ways to assert their identity and a new relationship with Israel.

Most diaspora Jews still support Israel strongly. But now that its profile in the world is no longer that of heroic victim, their ambivalence has grown. Many are disturbed by the occupation of the Palestinian territories or more recently by images of Israeli bombing in Lebanon; some fear they give grist to anti-Semites. Quite a few think Jewish religious and cultural life in Israel is stunted. Others question the point of a safe haven that, thanks to its wars and conflicts, is now arguably the place where most Jews are killed because they are Jews. The most radical say, as the Palestinians do, that the idea of an ethnically based state is racist and archaic.

What is more, the last great waves of *aliyah*, immigration to Israel, have ended. Barring a new burst of anti-Semitism, the map of world Jewry will change slowly from now on. Each community is evolving in its own way. Some are seeing a revival unthinkable a few years ago. And young Jews especially are asking what Israel means to them. Some, say Caryn Aviv and David Shneer, two American scholars, in a recent book, “New Jews” (New York University Press), reject the notion that they are in a “diaspora”, which “envisions the Jewish world hierarchically with Israel on top, the diaspora on [the] bottom.”

Aliyah literally means “ascent”, while leaving Israel is *yeridah*, “descent”. Repeated banishment—to Egypt, Assyria, Babylon—and return are the backbone of the Jewish historical narrative. The Hebrew word that usually refers to the diaspora, *gola*, implies forced exile.

But as early as 1950 Jacob Blaustein, the head of the American Jewish Committee (AJC), told David Ben-Gurion, Israel's prime minister, that “American Jews vigorously repudiate any suggestion or implication that they are in exile.” In November Ze'ev Bielski, the head of the Jewish Agency, the Israeli body responsible for promoting *aliyah*, got in hot water for saying that one day American Jews “will realise they have no future as Jews in the US due to assimilation and intermarriage”. America has provided a mere 120,000 Israelis since 1948, and still has as many Jews as Israel. A survey two years ago by Steven M. Cohen, a sociologist at New York's Hebrew Union College, found that just 17% of American Jews called themselves Zionists.

Nonetheless, Jewish Americans have long been Israel's strongest supporters. Many of the most zealous West Bank settlers come from America. The main Jewish lobby groups have tended to back right-wing Israeli governments and avoid criticising their policies. The fact that Israel is America's strongest ally emboldens this gung-ho stance. So does the ultra-Zionist stance of some American Christians.

But Jews too young to have watched Israel rout three Arab armies in six days in 1967 are less likely to see it as heroic, morally superior, in need of help, or even relevant. “Israel in the Age of Eminem”, a report written in 2003 for the Andrea and Charles Bronfman Philanthropies, a Jewish charity, concluded that “There is a distance and detachment between young American Jews and their Israeli cousins that does not exist among young American Arabs and has not existed in the American Jewish community until now.” In Mr Cohen's survey, only 57% of American Jews said that “caring about Israel is a very important part of my being Jewish”, down from 73% in a similar survey in 1989.

The culprit is not just the Arab-Israeli conflict. American Jewry is pluralistic—many of its members belong to progressive denominations such as Reform and Conservative Judaism—while Israel's Orthodox establishment does not recognise conversions or marriages by other kinds of rabbis. Clashes over “who is a Jew” cooled American-Jewish attitudes to Israel well before the second Palestinian *intifada*.

The *intifada*, like any crisis, rallied support. Howard Rieger, president of the United Jewish Communities (UJC), an American umbrella body, recalls that when the UJC launched appeals to help suicide-bomb victims and their families, “it was the first time [in recent years that] Israel had been put at risk and the response was similar to that of the previous generation.” This summer, a UJC appeal during Israel's war against Hizbullah in Lebanon raised $340m in just six weeks.

Leaping to Israel's defence is still what the Jewish establishment does best. After the war, the Israel On Campus Coalition, a student organisation, issued a 129-page guide with contributions from all the major Jewish and pro-Israel bodies, packed with set-piece talking points for knocking down critics of Israel. But Jewish students who wanted a real debate about the war—like the debate by then raging furiously in Israel itself—had to look elsewhere.

“There has to be something better for North Americans to do [with Israel] than respond to crisis,” says Roger Bennett, director of special projects at the Bronfman foundation. Mr Rieger agrees. One thing they could do, he thinks, is work with Israelis on resolving the “identity question”, namely, the Jewish character of life in the Jewish state, where religious identity is often displaced by a secular, national one.

The trouble, says Mr Bennett, is that the mainstream American Jewish institutions were born to make the case for Israel and to fight anti-Semitism. Young Jews today, however, are searching for identity, spirituality, meaning and roots. Unlike their grandparents, they are not concentrated among other Jews but spread out across society. They do not meet people in synagogues or other Jewish forums, but form their own networks. “Jewish” is just one part of their multi-faceted American identity, and Israel does not seem that relevant.

An ambitious attempt to resist assimilation and the loss of Jewishness is the “birthright israel” programme, sponsored by a group of Jewish philanthropists, which since 1998 has given over 100,000 young Jews from around the world a free ten-day trip to the country. It aims less to promote *aliyah* than to give an instant hit of Jewishness. Surveys show it works. Mark Hanis, an Ecuadorean-born 24-year-old who did the trip in 2001, calls it “transformative”, a word Jewish leaders love. “The big impact for me”, he relates, “was seeing children in the streets playing soccer like you always saw in Ecuador, but wearing yarmulkes instead of crosses.”

Ironically, though, many returning birthrighters have embarked on a search for new ways of what is colloquially called “doing Jewish” that have little to do with Israel or even religion. A lot of it is based on *tikkun olam*, literally “world repair”, the Jewish duty of social activism. Thus Mr Hanis, the grandson of Holocaust survivors, decided that Jews have a duty to fight genocide, and founded the Genocide Intervention Network, a campaign against the killings in Darfur. A young leaders' conference, ROI120, ambitiously decided, at its first meeting last summer, to create “the cultural expectation that Jewish youth will spend a year engaged in social service” after finishing school. The American Jewish World Service, which works on everything from microcredit in El Salvador to women's rights in Rwanda, has more than doubled its intake of volunteers in the past four years.

Then there is the growth of synagogues that welcome gay and transsexual Jews;

of Jewish cultural centres; and of museums that celebrate Jewish history instead of mourning the Holocaust. New York has produced avant-garde projects such as Reboot, a forum for creative young Jews that in turn has spawned a magazine, a record label and a publishing house. As all these new ways of "doing Jewish" reanimate young Americans' sense of belonging, the far-off country where they could in theory go may start to matter even less.

Some groups try to keep Israel relevant but in new ways. The New Israel Fund, for instance, holds traditional fund-raising appeals for Israel, but gives a lot of the money to untraditional causes like gay or Arab civil rights. It is also less afraid of politics: it published a newspaper article in November criticising the inclusion of Avigdor Lieberman, a right-wing extremist, in the Israeli government, while groups like the AJC kept an embarrassed silence.

But the pro-Israel heavy guns still predominate. And their one-sided discourse risks turning young people off. It is often seen, Mr Cohen says, "as demanding loyalty to certain objectionable Israeli policies". In the long run, he predicts a polarisation in American Jewry: a small group growing more pious and attached to Israel, while a larger one drifts away.

AP

Prepare to celebrate: a feast in Arkansas

If American Jews worry about assimilation depleting their numbers, so much more do the already less numerous Jews of Europe. Israel ought to matter more to them; it is also closer. But European Jewry is a patchwork quilt, where the bond with Israel depends greatly on local conditions.

In Britain, even more than in America, Israel is an anchor of Jewish identity. Britons are far more likely to have visited Israel, have family there and call themselves Zionists, even though their political view of Israel is sometimes more critical.

But Rabbi Rodney Mariner is worried. A survey of his flock in London's Belsize Square found "a very low level of enthusiasm and commitment to Israel among pretty much all the middle-to-younger members". Coming from British Jewry's Liberal camp, he notes that the only growth is at the other end of the spectrum: among the *haredim*, the ultra-Orthodox, whose garb and close inter-communal ties set them apart. "I don't see something outside ultra-Orthodoxy, other than Israel, that can hold a Jewish community together in the long run," Rabbi Mariner says. That troubles him, because Israel seems poor glue. He has qualms about its policies, little faith in its leadership, and doubts about "the value of Israel in Jewish terms". Britain's chief rabbi, Jonathan Sacks, is of a somewhat similar mind. He has cautiously criticised Israel's treatment of the Palestinians and recently chided it for lacking "a Jewish sense of ethics permeating the great institutions of society".

France, by contrast, has more Jews than anywhere else in western Europe, estimated at half to three-quarters of a million. But most of France's Jewish families came two or three generations ago from North Africa. They are less attached to France than their counterparts over the Channel are to Britain, says Jean-Jacques Wahl, director-general of the Alliance Israélite Universelle in Paris; almost all have family ties to Israel, or have lived there.

Young French Jews, he adds, are also likely to be more anti-Arab and right-wing: "I think that Bibi [Binyamin Netanyahu, head of Israel's right-of-centre Likud party] is more popular in France than in Israel." On top of that, a series of anti-Semitic attacks in recent years—a period when Muslim-Jewish antagonism has compounded the old anti-Semitism of the French right—are stoking fear and making *aliyah* seem more attractive. Last year 3,000 Jews moved from France to Israel, a level rarely seen in the past 30 years.

And yet even France's Jews bridled when Ariel Sharon, then Israel's prime minister, said in 2004 that they should move to Israel. Mr Wahl thinks the community, less split along denominational lines than elsewhere, is there to stay.

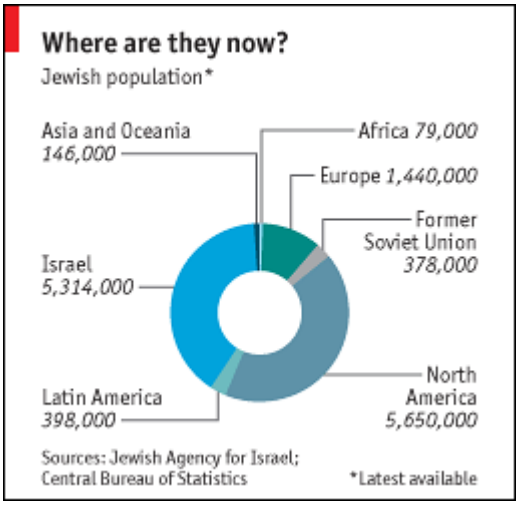
Contrast Israel's gravitational pull on French and British Jewry with its relationship to Germany and Russia. Russian Jews, in fact, predominate in both countries. For 13 years Germany offered all Jews from the former Soviet Union automatic residency, and today the community numbers 115,000, four times what it was before the Iron Curtain fell. In September, in a stirring epitaph to the country's Nazi past, new rabbis were ordained on German soil for the first time since the Holocaust.

But having moved once, few Russian immigrants feel like moving again. Young Jews in Germany, says Michael Brenner, a historian at Ludwig Maximilien University in Munich, are less likely to go to Israel than to England, "to study and find a Jewish partner and a more normal and diverse Jewish life". Among Jews in Germany, criticism of Israel is muted. But Zionist activism, says Rabbi Walter Homolka, the principal of the Abraham Geiger College, the seminary where the three new rabbis were trained, gets "very little response". For him, the big worry is whether the Russian arrivals, whose priority is integrating into German society, will stay Jewish too. And the way to bind them in, he thinks, is not some artificial bond to Israel, but local attractions, such as Jewish day schools.

The world's least-expected Jewish revival, however, is going on in Russia itself. Once it was a place that Jews only wanted to leave; more than a million moved to Israel after 1990. But there are still hundreds of thousands left.

Jewish identity is naturally strong in Russia, where Soviet rule quashed religious life but insisted on the separateness of Jewish ethnicity. These days, even Jews who have never been to a synagogue are happy to assert that separateness: they are *rossiiskiye*, Russian citizens, but not *russkiye*, "Russians". The ultra-Orthodox Lubavitch movement, which works to bring lapsed Jews around the world back into the fold, can take some credit. But probably the main factor is Russia's economic boom. Synagogues and community centres are opening everywhere, with funds that once came from a few Jewish tycoons but now flow in from newly middle-class businessmen.

As many as 100,000 Russian-Israelis have gone back to Russia, says Rabbi Avraham Berkowitz, the director of the Lubavitch-run Federation of Jewish Communities, one of Russia's two main (and rival) umbrella groups. In a fast-growing market with a population over 20 times the size of Israel's, they often get better work. Today, a Russian Jew in Moscow will be more expensively dressed than his cousin in Tel Aviv: a big reversal from ten years ago.



Israel's government dislikes acknowledging this apparent *yeridah*, but as Rabbi Berkowitz argues, "It's a win-win situation for both Israel and Russia." Most of the returnees retain ties with Israel; they often leave families there, and invest earnings there, in homes and education. This makes for a new kind of diaspora: these days, as one listens to the sound of Russian in Old Jerusalem or Hebrew on the canals of St Petersburg, it can be hard to tell where Israel ends and Russia begins.

Don't worry, be Jewish

In fact, a Jewish cultural revival is going on not just in Russia and Germany, but all across Europe. Tony Lerman of the Jewish Policy Research Institute in London cites steep rises in the numbers of Jewish museums, Jewish day schools and academic Jewish studies courses; more people are studying Yiddish, a dying language not long ago; Jewish film, music and cultural festivals are flourishing everywhere, even in Poland, a cradle of anti-Semitism.

Partly this reflects a fad for exotica among non-Jews. Still, it suggests that many Jews are reacting to anti-Semitism and fears of assimilation not by moving to Israel, but by rediscovering what it means to be Jewish outside it. Mr Shneer and Ms Aviv make the intriguing prophecy that in ten years, American Jewish foundations "will spend as much money sending young Jews to Vilnius to study Yiddish or Prague to study Jewish art or architecture as they do sending young Jews to Israel."

The old-style attachment to Israel, treating it as a potential future home, a shield against assimilation, and an ongoing emergency needing support, is a mistake, Mr Lerman argues. "The way to continue it is with common concerns about education, civil society, human rights and values." Even the Jewish Agency, a bastion of traditional Zionism, is changing tack. Makom, one of its partner agencies, now sends envoys to American Jews with a new brief: to get young Jews interested in Israel not by "hugging" it but by "wrestling" with it and its contradictions.

Accepting this challenge may be Israel's best chance to stay relevant to non-Israeli Jews. Israelis may still speak of the *gola;* but the Jews who fled to the Hellenistic world after the destruction of Jerusalem's Second Temple in 70 AD deliberately adopted the Greek word diaspora, "dispersal", because it was more neutral. "Diasporism"—the idea that Jews are better off outside the Holy Land—is a tradition that began with the prophet Jeremiah and still exists among a few ultra-Orthodox Jews. But increasingly, today's young Jews see the future not as a choice between Zion and exile, but as a fruitful fusion of both.

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Apple

Drop the Computer

Jan 11th 2007 | SAN FRANCISCO
From The Economist print edition

Getty Images

With new products and a shorter name, Apple hopes to change the world again

Get article background

“WE'RE going to make some history here today,” said Steve Jobs this week at the beginning of his annual speech at Macworld, his company's cult-like trade show in San Francisco. He was as good as his word. First, he launched a product that promises at last to bring digital entertainment from people's computers to their television screens without fuss. Then he unveiled an even more impressive device that transcends the description “mobile phone”. Mr Jobs, who was so excited that he had lain awake all night, made it clear that he considered this day a watershed in the three-decade history of Apple Computer, a point that he emphasised by announcing that his firm would henceforth drop “Computer” from its name.

Indeed, Apple's laptop and desktop computers, which are selling briskly, were hardly mentioned. Nor were Apple's iPods, which dominate the market for portable music players. Both of the new products are really computers, but people won't think of them as such, since they will be in their pockets and living rooms. The mobile phone—provided Apple can settle a legal dispute over the name with Cisco, a network-equipment company—is called the iPhone. It will go on sale in America in June starting at $499, in Europe in the autumn and in Asia next year. The television-set add-on is called Apple TV and will hit stores next month at $299. With these two products, Mr Jobs intends to enter and transform new industries, and ultimately people's lives—just as he did in 1984 when Apple transformed computing with the launch of the Macintosh, and again in 2001 when it introduced the iPod, which shook up the music industry.

That Mr Jobs' announcements had such an impact during this particular week says a lot, because the rest of the consumer-electronics, computer and telecoms industries were simultaneously congregating at the Consumer Electronics Show, the world's biggest technology fair, in Las Vegas. There, many of Mr Jobs' old and new rivals were talking about much the same things as he was. Microsoft's Bill Gates introduced the “Windows Home Server”, his answer for uniting computers and television sets. Olli-Pekka Kallasvuo, the boss of Nokia, a mobile-phone giant, unveiled new handsets that can hold music and videos. His rival, Ed Zander of Motorola, did the same and rode a yellow bicycle around the stage to illustrate the point that “content moves with you.” And so forth.

But all the gadgets being peddled in Las Vegas were “evolutionary”, whereas Apple's were “revolutionary” and thus noteworthy, says Tim Bajarin, the boss of Creative Strategies, a technology consultancy in Silicon Valley. This is particularly true of the iPhone. Officially, it falls into the category of “smartphones” like the Treos or BlackBerrys that seem almost surgically attached to business people these days. But Mr Jobs used that term in mockery, since many of these phones are, to him, so patently dim-witted. Yes, they can send and receive e-mail, but why have a tiny keyboard when you do not need it for most of the phone's other functions? Indeed, as Mr Jobs was talking, shares in Apple soared and they plunged at Research in Motion and Palm, the makers of the BlackBerry and Treo respectively.

Unlike rival products—but in keeping with Apple's approach—the iPhone's front panel has only one mechanical

button. The thin, small slab has a touch-screen which displays whatever buttons, keys or icons are relevant to the task in hand. When playing music, the iPhone shows album covers; when writing e-mail, a small keyboard; when a call comes in, the caller's identity from the address book; and so on. And whereas any other company would have foisted a stylus on its victims, Mr Jobs gloated, Apple lets them use fingers to scroll, drag, type and resize. Just as the Macintosh was a breakthrough in 1984 for its mouse, and the iPod in 2001 for its click wheel, the iPhone's stroke of genius is this new “multi-touch” technology. “And boy have we patented it,” said Mr Jobs.

Along with more than 200 other patents, this technology should put the iPhone “five years ahead” of its rivals, reckons Mr Jobs. This claim is hard to judge. The iPhone is not the only phone that can switch automatically between a short-range Wi-Fi connection and a mobile-phone network, depending on which one it sniffs. But it is the only phone with a web browser (Apple's Safari) that displays web pages in their full splendour. It is also the only phone that has “visual voicemail” to save users from the hassle of listening to all their messages before getting to the important ones—a joint innovation with Apple's partner, Cingular, America's largest mobile operator. And it is by far the best handset for photographs, music and videos.

In his commercial goals, Mr Jobs was more conservative. Around one billion handsets are sold each year and Apple hopes to sell 10m iPhones, capturing 1% of the market, in 2008. Yet just as the original iPod led to smaller and cheaper models, thus exceeding Mr Jobs' initial projections, so the iPhone too could become a big family of products. This must be worrisome to Motorola, Nokia, Samsung and, above all, to Sony Ericsson, which concentrates on selling high-end music handsets under its Walkman brand.

Amid all the excitement, Mr Jobs' biggest concern has nothing to do with Apple's products. The risk, rather, is that Apple will become more deeply mired in a financial scandal over the backdating of share options, a practice that it and more than 200 other firms have now admitted to. Apple disclosed last June that it had awarded options with dates manipulated to make them more likely to pay out. It has since filed four statements with securities regulators, and each time Mr Jobs' role has grown. Last month two board members, including Al Gore, America's former vice-president, issued a report ostensibly clearing Apple's boss of responsibility, but confusingly and contradictorily detailing bad options grants (and even a fictitious board meeting) that involved Mr Jobs.

Mr Jobs will not be in the clear until regulators give their own verdict. Many other affected firms have atoned by letting errant bosses go. For Apple, whose identity is inextricably wound up with its co-founder and boss, this might spell disaster. Mr Jobs does have able lieutenants, such as Timothy Cook, his number two, who took over for six weeks while Mr Jobs had cancer surgery in 2004. But Apple without Steve Jobs would lose its shine.

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General Motors

Turnaround?

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The prospects for the world's biggest carmaker have dramatically improved

AFP

GM plugs its new electric car

WHEN Rick Wagoner, the chairman of General Motors, walked onto the floor of Detroit's Cobo Hall in January 2006, only one question seemed to matter to the assembled throng attending the North American International Auto Show: how soon would the giant American carmaker go bust? A representative of Kirk Kerkorian, an entrepreneur who had just bought a 10% stake, said GM had to wake up or it would run out of cash in three years. Mr Kerkorian has since sold out, but he seems to have galvanised GM. At this year's show the subject of choice was the firm's nascent turnaround.

A year ago GM was making record losses, closing plants and slashing its workforce. It was struggling to sell cars at rock-bottom prices and faced having to pay out billions of dollars to prop up Delphi, its former parts unit. Meanwhile, its increasingly rampant Japanese rival, Toyota, was making plans to overtake GM as the world's biggest carmaker by 2008.

Many of these problems still haunt GM, but even its most vociferous critics can see signs of a revival. The company began this year's Detroit show with a lavish event attended by Hollywood celebrities. But the real star was the newly redesigned Camaro Convertible, marking a comeback for one of GM's most famous models. Along with the new Chevrolet Malibu, a complete remake of the type of saloon with which GM once dominated the market, it suggests that the firm is regaining its edge in design. Its new Chevrolet Silverado was named pick-up truck of the year, and when its Saturn Aura was chosen as best car, even the unit's unflappable general manager, Jill Lajdziak, was lost for words.

The revival of the ailing Saturn division casts light on some of the changes. Saturn has consolidated its vehicle-development efforts with those of GM's European arm, Opel. More broadly, the carmaker's previously autonomous regional operations are now working together coherently, as Bob Lutz, GM's vice chairman and “car czar”, farms out duties. North America is developing the big pick-up trucks that dominate the local market and Europe will handle mainstream passenger cars. The car unit of South Korea's Daewoo, now a GM subsidiary, will work on entry-level models and Holden, an Australian subsidiary, will develop big saloons. If GM can make this approach work, it will achieve economies of scale that only Toyota can match, says David Cole, of the Centre for Automotive Research, a consultancy.

Like Toyota, GM is also standardising manufacturing practices around the globe. It has eliminated 30,000 jobs and reduced North American production capacity by 30%. According to Mr Cole, all of this has cut costs by the equivalent of about $2,000 a vehicle. Mr Wagoner says GM reached its target of trimming $9 billion from fixed costs by the end of 2006.

Still, problems remain. Toyota unveiled its largest-ever light truck in Detroit, and is thought to be planning several new American factories. So even as Toyota emphasises the green credentials of its Prius hybrid car, it is attacking the Silverado, one of GM's biggest money-makers. GM's response is to expand its own hybrid offerings, including the new Chevrolet Volt concept car (pictured). It is battery-driven and can be recharged from the mains or by an on-board three-cylinder engine that never directly drives the wheels.

GM is still struggling to get its core North American operations into profit. But for the first time in years it is heading in the right direction. There is a long way to go, but at least the threat of bankruptcy is receding in the rear-view mirror.

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General Electric

Nip/tuck

Jan 11th 2007 | NEW YORK
From The Economist print edition

Jeffrey Immelt opts for plastic surgery

Get article background

PLASTICS, as anyone who recalls the advice given to Dustin Hoffman's character in “The Graduate” will be aware, used to be the perfect business for an ambitious youngster. When General Electric's legendary boss, Jack Welch, first joined the firm, he worked in an office on Plastics Avenue. Mr Welch's talent for management was noticed when, as head of the plastics division, he doubled its size in three years. But today plastics is a low-growth, commodity business. And as if to prove that GE is no longer the firm that Jack built, his successor, Jeffrey Immelt, has just put the plastics division up for sale. Goldman Sachs, GE's investment bank, has invited bids from four private-equity firms and two “strategic buyers”, presumably plastics companies. The division may fetch as much as $10 billion.

The sale is Mr Immelt's latest attempt to please shareholders, who have been strikingly unenthusiastic about GE since he took charge in 2001. Mr Welch was always going to be a hard act to follow, especially since Mr Immelt has been unable to manage earnings in the way that his predecessor did so enthusiastically. He has won plaudits for his reform of GE's corporate governance, and is admired for his “ecomagination” strategy and the leadership he has shown, not least to other firms, on the issue of global warming—though he has yet to prove that going green can do much for the share price.

GE's shares have been flat for the past couple of years. They remain about 10% below their price when Mr Immelt took the job. In the same period, the S&P 500 has risen by more than 25%. That is why, despite GE's consistent profit growth, and a forecast of a further 10-13% rise this year, Mr Immelt has promised to return more money to shareholders. He has also been shuffling GE's portfolio to boost growth. In a string of deals worth over $100 billion so far, GE has bought fast-growing firms in health care, biosciences and Hispanic entertainment, among others, and sold its under-performing industrial-materials, insurance and motors businesses.

Selling the plastics division fits this strategy. Although it has recently been shifting away from commodity plastics towards specialty niches, the division has missed its profit targets and hurt GE's margins. Goldman Sachs reckons that selling it would provide an immediate one-percentage-point boost to GE's margins. Whoever buys the division will probably merge it with other plastics businesses, bringing much-needed consolidation to an industry suffering from over-capacity. But would-be buyers may be put off by the restrictions that GE is placing on the six invited bidders: they cannot get together to make an offer.

Bidding consortia are now all the rage in private equity, since they allow bidders to go after bigger companies and to spread the risk they bear in any one deal. However, such “club” deals have come under fire for reducing competition, an allegation that is now being investigated by America's Department of Justice. Although no charges have been brought, it is widely believed that GE's bidding rules reflect a desire to maximise the competitiveness of the auction, and hence the price. But GE's move could backfire. A $10 billion deal is probably too much for any one private-equity firm, so GE may yet have to settle for a lower price or allow clubs to bid.

Mr Immelt should want to keep private-equity firms happy. Unless GE's share price picks up soon, shareholders may conclude that the time has come for more radical action, perhaps in the form of a break-up—in which case, private-equity firms would be the obvious buyers.

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Indian telecoms

Essar and away

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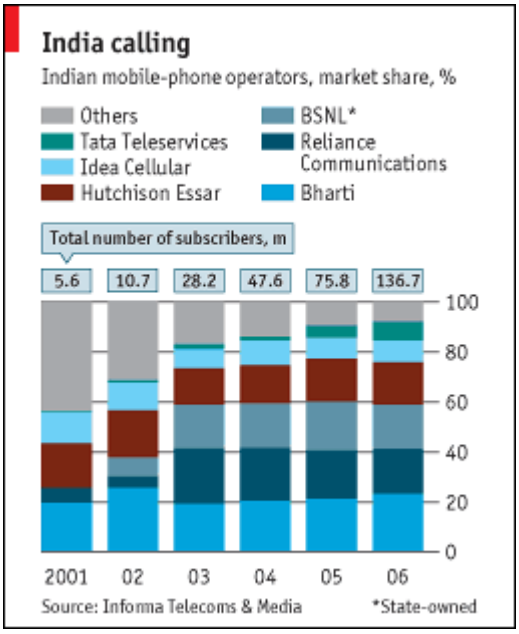
Who will win control of India's fourth-biggest mobile operator?



HE MAY be retreating from India, but at least Li Ka-shing, Hong Kong's richest tycoon and a fabled dealmaker, will do so laden with cash. Hutchison Telecom, which Mr Li controls, has put up for sale its 67% stake in Hutchison Essar, India's fourth-largest mobile operator, which is expected to fetch at least $12 billion. This would value the operator at $18 billion, up from $8.8 billion just last June, when the Hindujas, an Indian family based in London, sold a 5.1% stake for $450m.

That would not be a bad exit from India for Hutchison. Mr Li's ambitions to invest in Indian ports have been blocked by the government for security reasons, due to his proximity to China's leadership. Relations with Essar, an Indian steel and oil-refining group controlled by the Ruia family and the owner of the other 33% of the mobile operator, have been difficult, to put it mildly. And a successful sale would provide a much-needed boost at a time when Hutchison's third-generation (3G) mobile ventures in Europe are struggling.

India's mobile-phone market is growing by around 55% a year and the country now has 140m mobile subscribers. An average of 6.5m subscribers have been added in each of the past three months, three times the rate of a year ago. Contrary to expectations, the “average revenue per user” (ARPU)—an important industry measure—has stayed relatively constant even as the number of users has risen. All of this makes India one of the world's most attractive places to invest in telecoms. So there is no shortage of potential buyers for Mr Li's stake in Hutchison Essar. With a 17% market share, the operator offers a foothold in what is now the world's fastest-growing mobile market.

One potential bidder is Vodafone, the world's largest mobile operator by revenues, which wants to expand in India but is boxed in, with a 10% stake in Bharti Airtel, the market leader, which it bought 15 months ago for $1.5 billion. That 10% is now worth a handsome $2.5 billion, but there is little prospect of Vodafone increasing its stake, let alone winning control from the family of Sunil Bharti Mittal, the founder and chairman.

Arun Sarin, Vodafone's chief executive, was in India this week lobbying government ministers and meeting the companies involved. On January 10th he said he would make a bid “in the next few weeks”. He also said he was willing to team up with Essar, which matters because Essar has not yet decided between trying to buy out Hutchison, maintaining its stake alongside a new partner, or selling out. The Ruia family does not regard telecoms as a core activity and is debating whether to sell now or wait for a still higher price in a year or so.

Reliance Communications, the country's second-biggest mobile operator, which has been controlled by Anil Ambani since India's biggest conglomerate was split in two in 2005, is interested in buying out both Hutchison and Essar. It sees the acquisition as a quick way of switching its focus towards the widely used GSM wireless technology, the dominant standard worldwide, and away from the less popular CDMA system which it mainly uses now.

But both Reliance and Essar (if it bids) would require substantial input from private-equity firms, which might balk at the rapidly rising valuations. Blackstone, Apex Partners, Carlyle and Kohlberg Kravis Roberts are among the private-equity firms reported to have been talking to Reliance. In addition, the Hinduja family is also planning to make a bid for Hutchison's stake.

At this stage, Vodafone seems to have an edge over its competitors, provided Mr Sarin can justify a high price to his wary shareholders and his cautious new chairman, Sir John Bond, the former chairman of HSBC. Much will also depend on whether he can do a deal with the Ruia family, which claims it has a prior right to buy Hutchison's stake and could make life difficult for any unwelcome newcomer. That claim is being challenged by Hutchison, so a deal could quickly end up in the courts unless Vodafone and Essar, together or separately, make an offer that both are happy with—and that Mr Li in Hong Kong deems acceptable.

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Telecoms

Peninsular campaign

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What the battle for Portugal Telecom says about business in Iberia

WHEN Anglo-Saxon capitalism reaches the southern fringes of Europe, odd things can happen. The year-long saga of the takeover bid for Portugal's biggest company, Portugal Telecom (PT), by the Sonae group, a retail and property conglomerate, is a case in point. This week Lisbon's stockmarket regulator, CMVM, gave its approval for Sonae to bid for PT through Sonaecom, a listed mobile-telecoms subsidiary.

Normally when a company bids, its shares fall and those of its prey rise. But Sonaecom's have risen by 47%, while those of PT have languished. Sonae is offering €9.50 a share (a tiny premium) for what is Portugal's biggest listed company; it was fully privatised in 2000, though the government has a “golden share” to block unwanted bids. Bizarrely, Portugal's competition authority approved the bid late last year, even though PT and Sonaecom would together control nearly 70% of the mobile-phone market. Sonaecom's shares have risen because it will not just win control of Portugal's dominant operator (with margins of around 37%) but will actually tighten its grip on the market.

PT opposes the bid, saying Sonae is not well financed, and most of the €10.7 billion offer is financed by bank loans. Add up the debt raised for the deal, plus debt and unfunded pension liabilities, and a firm with a market capitalisation of only €1.7 billion would be acquiring one with combined debts of €17 billion.

But Sonaecom has powerful friends: France Telecom owns 19.9% of it. The Portuguese government says it will let the market decide the outcome, but will use the golden share “if the national interest is at stake”. That might indeed be so if it suspected that Sonaecom's foreign shareholders planned to gain control after the acquisition.

PT's defence will be to sell its cable division and offer a special dividend payout to shareholders, which it indicates would be worth €5.3 billion. That could force Sonaecom to make a higher bid to win over international investors sceptical about the odd share-price movements. The next hurdle Sonaecom must clear is to gain a two-thirds majority at a forthcoming PT shareholders' meeting to change a by-law forbidding anyone from owning more than 10%. That could also require it to raise its bid. This one could run and run.

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Health care

Pyramid power

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An innovative approach to selling spectacles to the very poorest

WILL seamstresses in Guatemala or poor farmers in India pay $3 for a pair of reading glasses? It seems unlikely. Such people are among the three billion or so who earn only a dollar or two a day. And yet Scojo Vision, an American optical firm, is betting that they will pay that princely sum for its spectacles.

The notion that only subsidies or handouts can provide the world's poorest with essential services such as health care is wrong, says Jordan Kassalow, Scojo's co-founder and a health expert affiliated with the Council on Foreign Relations, a think-tank. Years of treating river blindness and other developing-world diseases as part of charity campaigns convinced him that such schemes often falter when the money or political will dries up. He believes the “bottom of the pyramid” would be better served by campaigns that involve some payment, so that costs are covered and the schemes are financially self-sustaining.

John-Michael Maas-Darby Communications

Sight for sore eyes

Those public-health campaigns also alerted him to the damage done by a common yet largely overlooked complaint known as presbyopia (which causes blurry close-up vision). “For every person that I treated for a serious eye condition,” he says, “there were 50 that needed simple, non-prescription reading glasses.” A pair of reading glasses, readily available in rich countries at pharmacies and corner shops, can solve the problem. But the rural poor have no such option.

“This is a failure of both government and the marketplace,” says Dr Kassalow. Government health clinics are understandably preoccupied with life-threatening maladies and urban optical shops typically shun simple reading glasses in favour of costly, high-margin prescription glasses. But this neglect takes a dramatic toll even on illiterates: farmers can no longer identify pests and choose the proper pesticides, craftsmen cannot manage fine handiwork, seamstresses cannot sew. As their sight fades, so does their income.

Precisely because that extra income means so much to the poorest, Dr Kassalow thought, they might be willing to pay for a product that restores their vision and earning potential. His firm, which already makes fashionable, expensive reading glasses for the developed world, has set up a philanthropic arm to sell glasses to people in the developing one. Using Scojo's existing design, marketing and manufacturing facilities, it is now operating in India, Bangladesh, Mexico and Guatemala.

The key to the business is a concept Dr Kassalow calls micro-franchising. “We deliver a ‘business-in-a-box’ to local entrepreneurs, train them and enable them to make money helping people see better,” he says. Each pair of glasses that Scojo provides to these entrepreneurs costs the firm about $1 to make and deliver. The franchisee pays it $2 or so and sells for about $3. Because every step of the value chain is profitable, the business model is sustainable. Profits are reinvested to expand the scheme. Scojo has sold 50,000 pairs of glasses so far and is aiming for 1m pairs by 2010 and 10m by 2016.

To do so, it has forged partnerships with outfits that have strong retail distribution in rural South Asia (where it is making its first big push). Drishtee, an Indian firm with internet kiosks in many villages, is now selling reading glasses, as is BRAC, a community-lending organisation in Bangladesh. A pan-African deal will be announced soon. Perhaps the most intriguing of Scojo's partners are marketing giants with ubiquitous reach, including Unilever and ITC, an Indian tobacco conglomerate. “People clearly have enough money to buy cigarettes and chewing gum,” says Dr Kassalow, “so why not get them to spend that instead on health?”

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European energy

A sparky new policy

Jan 11th 2007
From The Economist print edition

The European Union gets tough with energy companies

Alamy

Too vertical?

"THIS report will make uncomfortable reading for many companies. Underinvestment is rife, especially in networks, and customers are suffering as a result." Neelie Kroes, the European Union's competition commissioner, did not mince her words as she published the final report of her inquiry into Europe's energy market on January 10th, alongside the European Commission's new recommendations for energy policy. She was especially scathing about vertically integrated firms such as Electricité de France (EDF), a French electricity giant, and E.ON, a German energy group. In her view their control of energy generation, transmission and distribution is the chief impediment to competition.

Energy is again preoccupying Europe. After last year's interruption of gas deliveries to Ukraine, which affected European supplies, Russia's halting of oil exports passing through Belarus to Europe on January 8th was a reminder of the need for a common energy policy. The three main goals are to reduce prices, improve the security of supply and combat climate change. Energy prices are high and vary by as much as 100% between member states. With today's policies, the EU's dependence on imported energy is set to rise from 50% of total consumption today to 65% in 2030. Emissions of carbon dioxide will increase by around 5% by 2030.

Lower prices are the main objective of Ms Kroes's efforts to foster more competition. She says she is determined to make full use of her powers to police competition, mergers and state aid for energy companies. She has been campaigning hard for the commission to press energy suppliers to sell their distribution networks. Vertically integrated companies block access to essential market information, she says. They do not invest enough in interconnections with other networks, since the ability to buy energy from and sell it to other firms would increase competition and reduce profits.

In its review of EU energy policy, the commission calls for "ownership unbundling"—the legal separation of energy suppliers and transporters. This is bad news for EDF, E.ON, Gaz de France, a French gas company, and RWE, another German energy firm. They are all vertically integrated. Yet as a sop to France and Germany, which are staunchly opposed to dismantling their national energy champions, such firms have been given the option to separate the management of their grids, rather than sell them outright.

Gaz de France (GDF) is in an especially tough spot. Distribution and transmission represent 70% of the state-controlled company's value, so it would be inconsequential as a pure supplier. Its fate is already uncertain. The French government wants GDF to merge with Suez, another French utility, but the deal has been held up by a ruling from a Paris court that it cannot go ahead until full deregulation of the EU market takes place in July this year. And Suez may have another suitor. On January 9th, after months of rumours about an imminent bid, the AMF, the French market regulator, gave François Pinault, a French financier, three weeks to make an offer for Suez or to hold off for another six months. Mr Pinault says he is keeping all options open, though he is likely to wait for the result of the French presidential elections in April and May before making any move.

Security of supply remains at the top of the EU's energy-policy agenda. Energy must become an integral part of all external EU relations, says the commission. It wants the energy community treaty, ratified by the EU and western Balkan states, to include other neighbours. European countries need to club together to improve relations with Russia, which has so far adamantly refused to sign the treaty so as to protect its energy companies from foreign competition. They should develop an energy alliance with Algeria, talk more to the OPEC oil cartel and start talks with Central Asian producers, says the commission.

Furthermore, given the dangers of global warming, the commission says the EU should aim to reduce primary energy use by 2020 to 30% below 1990 levels. (It had previously called for a 20% reduction, and if other developed countries, especially America, do not adopt similar targets it will revert to this original goal.) To achieve this, the commission will back fuel-efficient vehicles, expand emissions trading, and encourage the use of public transport and low-energy construction. The commission also increased the goal for the share of renewable energy in member states' overall energy mix from 12% to 20% by 2020.

Transforming the commission's proposals into legislation will take time. The ideas will be discussed at a summit of EU leaders in March and laws could be drafted some time after that. As is often the case with EU directives, the end result will probably differ greatly from this week's wish list.

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Face value

The shy architect

Jan 11th 2007
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Ratan Tata has transformed India's biggest company, and done it alone

AP

CASTING about for someone to run a big family firm when a successful tyrant is due to retire is usually a troublesome business. When the firm is still controlled by the same family that founded it back when John D. Rockefeller was gobbling up refineries in Cleveland, it becomes still more daunting. Add the fact that the ruling family are Parsees, a small Zoroastrian sect who have been intermarrying in India for over a thousand years, and the odds of finding someone who is up to the job lengthen again.

Yet after indifferent early reviews, Ratan Tata has transformed the Tata group, of which he is chairman. When he took over from his uncle, J.R.D. Tata, it was a cumbersome conglomerate with stakes in a huge collection of companies that seemed likely to wither in the face of foreign competition. Now it makes foreign acquisitions and ventures into unfamiliar markets. Tata Steel's bidding war with CSN, a Brazilian firm, over Corus, an Anglo-Dutch steelmaker, is just one example of the once-staid group's new boldness. Mr Tata was recently voted Indian of the year by viewers of an Indian television channel, beating both Sachin Tendulkar, India's greatest cricketer, and Aishwarya Rai, the country's most famous screen goddess. And he has succeeded partly because he is what his friends call an individualist, and others might call a loner.

Mr Tata does not like publicity and avoids the platforms and applause of conferences. He lives frugally, does not drink or smoke and seems baffled by the idea of time spent not working. Asked what he would do with it, he usually replies that he would walk his dog along the beach near Mumbai. He does not seem to be motivated by money, and talks constantly about fairness and doing the right thing. “I want to be able to go to bed at night and say that I haven't hurt anybody,” Mr Tata says twice in the course of an interview at a hotel in New Delhi owned by the sprawling group.

Mr Tata became chairman in 1991, just as India's economy was opening up. His uncle, who had run Tata for more than 50 years, had started Tata Airlines (which became Air India) and was to India what Gianni Agnelli of Fiat was to Italy. He was a good-looking philanthropist with a French wife and held the first pilot's licence to be issued in India. His shy and unglamorous nephew, in contrast, trained as an architect at Cornell University, slipped quietly into the family firm and was not marked out for the succession even when his uncle was due to bow out.

Despite all the glory that surrounded J.R.D., when he retired in 1991, Tata was a group of companies ill-equipped to deal with the changes about to sweep through India. It earned most of its money in old-fashioned industries that had grown fat during the centrally planned “licence *raj*”, when the government set limits on how much firms were allowed to produce and protected them from foreign competitors. The stakes held by the family in many of the 300-odd companies in the group were tiny, and the main Tata businesses were run as independent fiefs by men much older than Mr Tata.

They might have expected Mr Tata, who had never held an executive position, to leave them alone. Instead, he retired them, improving their pensions to soften the blow. He sold stakes in some companies and used cash from the sales and revenue from Tata Consultancy Services, India's largest IT firm, to shore up control of those that remained. There are now a mere 96 companies in the group, and Tata Sons now owns at least 26% of each of them. That has made the portfolio a little easier to manage, but it leaves Mr Tata more isolated at the top.

Shortly after he became group chairman, Mr Tata also decided that Tata Motors would make its own cars, even though a joint venture with a foreign firm would have been easier. Critics grumbled that a good truck business was about to be destroyed for the sake of an ill-conceived vanity project. But after a difficult start, Tata Motors is now India's second-biggest carmaker by sales. “If he had listened to what everyone told him, he would never have done it,” notes one of Mr Tata's friends.

First, do no harm

Although he has made Tata's big businesses more competitive and more inclined to look beyond India's borders—Corus would be just the latest in a series of foreign acquisitions—Mr Tata has also run it in keeping with Tata's public-spirited tradition. Two-thirds of Tata Sons is owned by charitable trusts that do good works in India, and the firm is known for refusing to pay bribes and for treating workers well. (The children of Tata's steelworkers were given free education back in 1917.) Foreign investors sometimes wonder if this is good for business. “At first I didn't have an answer,” Mr Tata says. “But then I asked myself: am I competitive? Yes. And this is the way companies are moving.”

Mr Tata's latest car project—producing a vehicle that will sell for under $3,000—combines two of the things that keep him from those walks along the beach: securing the fortunes of the family group and pleasing a highly developed sense of fairness. The factory will be in communist-run West Bengal, a state chosen partly because it is in need of industrial development. West Bengal's government is eager for the investment, but Tata Motors has faced protesting farmers, a politician on hunger strike and, Mr Tata thinks, commercial rivals trying to prevent the birth of a more affordable car. Tata Motors is sticking it out, and expects to secure the land to build its new plant at the end of the month.

Mr Tata, who has no children, is due to retire in December 2012, when he reaches 75. That will leave the group with a familiar succession problem. Meanwhile, he is heading the government's investment commission, which works to increase foreign investment. And he may be about to create one of the largest steelmakers in the world. Not bad for a shy architect.

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Manufacturing in Asia

The problem with Made in China

Jan 11th 2007 | SINGAPORE
From The Economist print edition

Retna Pictures

China is choking on its success at attracting the world's factories. That has handed its Asian neighbours a big opportunity

Get article background

AS A vote of confidence in Vietnam, the decision by Intel early in 2006 to spend $350m building a new factory in the emerging South-East Asian economy was hard to beat. And yet, before the year was out, the American chipmaker went further and raised its investment to $1 billion. In eight months Intel had committed as much money to Vietnam as it had to China in the previous ten years.

In the Johor region of Malaysia, another global firm, Flextronics, has fired up the production lines of a new M$400m ($110m) factory to make computer printers for another American firm, Hewlett-Packard. One of the largest contract electronics manufacturers, Flextronics already has vast facilities in China. But it chose Malaysia as the site for its latest investment.

Further east, in Indonesia, Yue Yuen, a Hong Kong-based shoemaker, has been ramping up its output of trainers and casual footwear for brands like Nike and Adidas. Production is increasing at the firm's factories in China and Vietnam too, but output in Indonesia is growing the fastest.

Although all three companies had different reasons for their decisions, the outcome was the same: they chose to avoid China's thundering economy in order to put their factories elsewhere in Asia. These companies are not alone. In the calculus of costs, risks, customers and logistics that goes into building global operations, an increasing number of firms are coming to the conclusion that China is not necessarily the best place to make things.

With its seemingly limitless supply of cheap labour and the rapid acquisition of technological prowess, China appears to be unstoppable. Indeed, the perception is that every factory closing in America or Europe is destined to reopen in China. Many have, helping China's share of the world's exported goods to triple to 7.3% between 1993 and 2005. In comparison, every member of the G8 group of rich nations, with the exception of Russia, saw its share fall. It is a similar story with manufacturing output. Whereas China doubled its share of global production to almost 7% in the decade to 2003, most of the G8 saw their shares fall. Interestingly, only the United States and Canada saw their shares rise—with just over a quarter between them. Most things nowadays might seem to be made in China, but North America remains the true workshop of the world.

Yet it is not only China that is booming as a base for low-cost production. Manufacturing and exports are growing rapidly in other parts of Asia (see chart 1). Taken together, South Korea, Taiwan, India and the Association of South-East Asian Nations (ASEAN) increased their share of global manufacturing from less than 7% to more than 9% in the decade to 2003. Exports also rose across the board. China is the emerging giant, but the investments that are being diverted away

from the Middle Kingdom present the rest of Asia with a huge opportunity to become manufacturing hubs in their own right. The question is whether they can seize it.

Too far, too expensive

Scott Brixen, an analyst at CLSA Asia-Pacific Markets, a Hong Kong-based investment bank, gives two big reasons why China has not found itself at the top of the list for some new factories: “Rising costs and a natural desire by companies for diversification.”

So far, most industrial development in China has taken place in the country's eastern coastal regions, particularly around Shanghai and the Pearl River Delta near Hong Kong. But costs in these centres are now rising sharply. Office rents are soaring, industrial land is in short supply and utility costs are climbing. Most significant of all are rocketing wages. In spite of the mass migration of workers from China's vast interior to the coast, pay for factory workers has been rising at double-digit rates for several years. For managers, the situation is worse still.

“China has become a victim of its own success,” sighs Peter Tan, president and managing director of Flextronics in Asia. He finds it especially hard to hire and retain technical staff, ranging from finance directors to managers versed in international production techniques such as “six sigma” and “lean manufacturing”. There are not enough qualified workers to go around, causing rampant poaching and extremely fast wage inflation. “China is definitely not the cheapest place to produce any more,” he says.

An analysis of labour rates across Asia by CLSA's Mr Brixen supports that view. Average wages for a factory worker, combined with social security costs, came to almost $350 a month in Shanghai in 2005 and almost $250 a month in Shenzhen. By comparison, monthly wages were less than $200 in Manila, around $150 in Bangkok and just over $100 in Batam in Indonesia. Although the productivity of Chinese workers is rising, in many industries it is not keeping pace with wages.

One solution is for companies to move inland where many costs are much lower than on China's heavily developed coastline. Indeed, the government has been promoting such a policy since 2000, to spread the benefits of development to China's poor interior. Domestic Chinese companies have led the charge into the hinterland and a small, but growing, number of foreign firms have followed them.

Intel is one. In 2004 it decided to invest $525m in a new plant in Chengdu, the capital of Sichuan province, to complement its existing factories on the coast in Shanghai, 1,600km (994 miles) away. Brian Krzanich, general manager of Intel's test and assembly business, says the company's decision was based on cost. The government was keen to promote its “go west” policy, so it offered Intel generous incentives. Needless to say, being so far inland raises transport costs for exporters. But Mr Krzanich reckons there are compensations, because labour and utilities are much cheaper than on the coast.

But not everyone is convinced. At Flextronics, Mr Tan's China factories are all located in eastern coastal provinces. “We have no interest in going west,” he says, because it is too expensive to get products to America and Europe from there. Other observers add that the shortage of management talent inland is even greater than on the coast. And it is not easy persuading expatriate workers to take their families to places like Chongqing and Chengdu, where foreign companions and international schools are thin on the ground. So many firms decide they would rather invest elsewhere in Asia.

Costs are only part of the equation. Just as important is diversification. Having already moved a big chunk of their production to China, many firms are reluctant to put any more of their eggs in the same basket. A research report written last year by the Japan External Trade Organisation concluded: “Due to the country's increasing business risks and rising labour costs...Japanese firms employing a ‘China-plus-one’ strategy—in which they invest in China and another country, namely in ASEAN—should consider placing more emphasis on the ‘plus one’ country.”

Japanese companies may be particularly wary, but such nervousness is now shared by managers from other countries. Some of their firms are concerned about growing unrest in China as swathes of the country's rural population, particularly in the west, fall behind the thriving east. Official figures record 87,000 incidences of rioting and social disturbance in 2005, much of it following the forced appropriation of farmers' land in the name of development. The actual number of cases of civil unrest could be far larger.

Equally important are concerns about growing protectionism. The United States and the European Union are becoming more assertive in holding China to account over its World Trade Organisation obligations. Companies worry that this could lead to sudden interruptions to trade.

Ask Yue Yuen, the world's largest contract shoe manufacturer. The company produces more than 180m shoes a year from factories in China, Vietnam and Indonesia, most of them bound for America and Europe. So when the European Union imposed anti-dumping duties in October 2006 on leather shoes imported from China and Vietnam, the firm was quick to raise its production in Indonesia. “Trade relations with other nations and the tariff and quota situation are vital considerations for where we invest,” says Terry Ip, a spokesman for the company.

So too are wage rates. With each shoe passing through up to 200 pairs of hands on the production line, Yue Yuen's operations are highly labour-intensive. In China the firm is experiencing rapid wage inflation. Although this is partly offset by productivity improvements which mean that overall unit labour costs are rising by 8% a year. Pay for factory workers is rising in Vietnam and Indonesia too, notes Mr Ip, but labour costs there are as much as 35% lower than in coastal China.

Another company with a China-plus-one strategy is Uniqlo, a Japanese clothing retailer. Last year it decided to reduce the share of clothes it sources in China from 90% to 60% as a hedging strategy against future trade disputes. New factories in Cambodia and Vietnam will make up the shortfall. Intel, with facilities in Vietnam, the Philippines, Malaysia and China, is creating a diversified portfolio also.

Keeping secrets

China also has other risks, notably a lack of protection for intellectual property rights. Stories abound of foreign investors finding local companies churning out identical goods to their own, but under a different brand. For that reason a number of companies in industries such as medical devices have instead set up shop in Singapore. Often these products are capital-intensive, so labour costs are less important than strong intellectual property laws. Several chemical companies have even built facilities in Singapore with the intention of shipping most of their products to China. Feedstock is more easily available in Singapore, but just as important is confidence that valuable industrial processes will not be stolen.

Managers also worry about the rising value of the Chinese currency. Although nobody expects sudden leaps, the yuan does appear to be on a steadily upward trajectory, having risen by a further 4% against the dollar since the government first revalued the currency by 2.1% in July 2005. Pundits expect it will continue to rise by around 5% in the year ahead, which will do little to bolster China's attractiveness for export-based manufacturing.

Of course, cost and risk are not the only considerations in choosing where to put a factory. The quality of a country's infrastructure, the presence of suppliers and the size of the local market all count. For such reasons, China will remain an attractive place to invest.

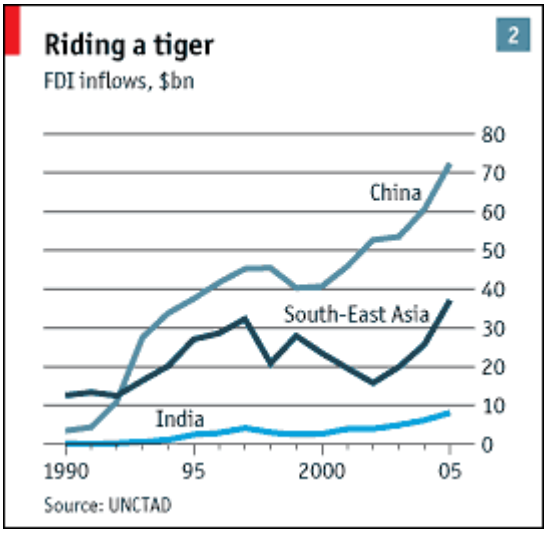
Kumar Bhattacharyya, a professor of manufacturing at Britain's University of Warwick, believes the lure of China's burgeoning domestic market will outweigh the various concerns over cost. “Why do people go to India and China? The standard answer is for cheap labour, but most big technology companies go there for the market,” he says.

Naturally, industries such as textiles and clothing will always seek places with cheap labour, hopping from country to country as wages rise and equalise. However, for more complex and capital-intensive manufacturing, it is clear that foreign direct-investment flows are aimed at accessing local markets rather than low costs.

In emerging Asia markets simply do not come any bigger than China, with its 1.3 billion people. Individual wealth is still extremely low compared with figures for the United States and Europe, but a vibrant middle class is emerging in the big cities. With growth rates of more than 10% a year, China offers huge potential. Transport and other infrastructure in China is also in better shape than many other Asian countries and the quality and availability of suppliers is improving all the time, enabling highly integrated supply chains to develop within the country.

Yet other parts of Asia also offer sizeable markets. India has 1.1 billion people, an emerging middle class of its own and will grow at around 8% this year, although the country is a good deal poorer than China.

To date, foreign investment in manufacturing has been limited—total investment inflows in 2005 amounted to a meagre $7 billion, compared with more than $70 billion for China (see chart 2). Hugely inadequate infrastructure is one of the chief obstacles in India, as is a business climate famous for its bureaucracy. Yet even there, more foreign companies are starting to open factories.



Manufacturing graduates

The car-parts industry is a good example, with both Toyota and Hyundai investing recently to take advantage of the almost 700,000 engineering and science graduates that India produces every year. It has even been suggested that Indian technicians could re-engineer some of the West's highly automated car-production lines to make them more labour-intensive for the Indian market. Firms making specialty chemicals are keen to combine technical expertise with low costs and a growing market. Even low-technology industries are interested: Yue Yuen is close to building its first shoe factory in India, attracted not only by the country's vast pool of cheap workers but also by efforts to set up special economic zones that offer tax breaks.

Most observers reckon India's manufacturing evolution is ten years behind China's, but progress is unlikely to be as swift or as smooth. A country that puts a higher value than China does on democracy and the rights of the individual will inevitably find it harder to push through infrastructure projects and reform to sensitive areas such as the rigid labour market.

With 560m people, the ASEAN trade bloc also offers a big population. South-East Asia has been the chief beneficiary of companies' decisions to diversify out of China. The problem is that the ten ASEAN nations have yet to form a single market. Although the region offers plenty of opportunity for export-based manufacturing, as a single market it remains highly fragmented. Companies want to be able to set up one factory to serve the whole region, but numerous barriers prevent them from doing so.

Governments in the region have announced bold plans to create the ASEAN Economic Community by 2015, with a free flow of goods, services and investment. Following a free-trade agreement in 1992, tariffs on the majority of goods traded in the region have fallen below 5%. Much harder to achieve will be the removal of non-tariff barriers, which would call for harmonising thousands of industry standards and customs regulations, and setting up independent bodies to govern regional trade and mediate in disputes.

Few believe that the ASEAN Economic Community will come about as its architects hope. Less developed nations, such as Myanmar and Laos, will integrate at a slower pace than countries like Singapore and Malaysia—if they integrate at all. Nonetheless, progress is being made and the rapid rise of China and India has added urgency to the process. Twelve areas, including electronics, health care, textiles and logistics, have been singled out as the first to be worked on.

In the meantime, governments must also think how to get their industries into higher-value manufacturing. Although ASEAN received record levels of foreign direct investment in 2005, at $37 billion, much of the manufacturing coming into the region is basic, labour-intensive assembly work that adds only a little value.

AFP

“I get worried about ASEAN,” says Roland Villinger, a Bangkok-based partner at McKinsey, a consulting firm. He thinks the region urgently needs to add to the sophistication of its manufacturing—partly because India and China are improving so fast. He agrees that a lot of factories in ASEAN are part of a “China-plus-one or plus-two” strategy. However, he believes South-East Asia needs to be more than just a hedge against risk in China. And ASEAN has its own share of risks. Thailand's new military government seems to be doing its utmost to deter investment, including tighter curbs on foreign ownership and botched currency controls.

Trainers to peddle harder

Smart but tiny

Bright spots do stand out. Singapore has a highly educated workforce, although its population is only about 4m. The country has a solid history of attracting sophisticated manufacturing that calls for strong technical skills and often involves extensive research and development. Malaysia too has had some success in moving into higher-value manufacturing. In May last year, for example, Intel opened a new research centre in Kulim employing 900 people to design microprocessors, chipsets and motherboards for use in its products worldwide. And in Thailand efforts to make the country the “Detroit of the East” are starting to pay dividends—at least they were until the present troubles. Thailand was set to overtake the United States last year as the world's largest maker of one-tonne pick-up trucks. Toyota recently set up a new research-and-development centre in Thailand for its light truck business.

Elsewhere in the region, though, governments talk a good game, but have yet to make enough progress. For the moment, as foreign investors choke on their China investments and look elsewhere, that does not matter too much. But as India sorts out its problems and as China grows into an ever bigger market, South-East Asia needs to integrate its own markets or see its newly found popularity among manufacturers slowly fade.

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Chinese accounting

Cultural revolution

Jan 11th 2007 | HONG KONG
From The Economist print edition

Satoshi Kambayashi

New accounting rules have replaced the Little Red Book as China's guide to self-improvement. Can the state handle the truth?

Get article background

SEPARATING truth from propaganda in China has always been hard, not least when it comes to numbers. Accountants, of all people, were seen as such a threat that during the 1960s they were packed off to re-education camps, dooming the profession for decades afterward. Even in kindlier times, businesses reported information that would interest a centrally planned economy, such as production quotas. The measuring sticks of bourgeois managers—costs, debt, depreciation, and (of course) profit—were ignored.

But since the 1990s China has begun scrubbing up its accounting system. At the beginning of this year it made its biggest move yet when the Ministry of Finance required the 1,200 companies listed on the Shenzhen and Shanghai stockmarkets to adopt, with important exceptions, norms similar to International Financial Reporting Standards (IFRS). These standards may sound like instruments of accounting torture, but countries all over the world are embracing them. China has given all its other firms the option of complying with them “voluntarily”—a word with many shades of meaning. If the changes are more than just cynical window-dressing designed to attract foreign investment, they will mark a profound shift in what China wants people to know not only about its companies, but also about its economy and its government.

A new accounting system would certainly help China. Most companies are good at keeping tabs on their operations, but the book-keeping is complicated by use of a thick manual that makes bewildering distinctions between different kinds of provisions. The result is a mess. “The records are complete, the question is how do you make sense of them,” says T.J. Wong, a professor of accounting at the Chinese University of Hong Kong.

Murder by numbers

There is abundant evidence, from trade statistics to fumes spewing out of factories and power plants across the country, that the Chinese economy is doing well. But how well individual companies are doing is far harder to tell. The financial results of companies that global investors wish to buy into can be as unintelligible as the dialect spoken in the company town. It is said (with apparent sincerity) that some Chinese firms keep several sets of books—one for the government, one for company records, one for foreigners and one to report what is actually going on.

Under the new approach, accounts will be prepared under 39 principle-based standards structured to reveal the economic value of a firm, with the aim of using market prices wherever possible. A clear understanding of a firm's revenues, costs and debt would enhance the efficiency of China's companies—the avowed goal—as well as making it easier to attract foreign capital and to invest abroad.

More profoundly, by properly reflecting costs, the heavy burden of state control would become more evident, as would the pricing signals that indicate the real desires of the Chinese people. Sleazy transfers of mispriced assets from the state to the private sector would become vastly more difficult. Theoretically, accounting would serve as a force for democracy.

Given all these benefits, the decision to shift accounting standards was, says one informed observer, not unlike the one to host the Olympics. It emanated from the top of the Beijing government and was aimed at bringing China into line with the rest of the world. Accounting, however, makes Olympiads look easy.

All China must pull off to host the games is to renovate bits of its big cities. By contrast, international accounting standards are built on foundations that China does not possess, such as experience of truthful record-keeping and deep, clean, markets so that “fair” valuations can be placed on financial instruments, property and softer assets like brands and intellectual property. (These in turn rely on enforceable laws.) What market exists that could put a fair price on the clumps of freshly built office blocks that stand empty in cities across China, asks Gary Biddle, a professor of accounting at the Hong Kong University of Science and Technology.

The decision to adopt international accounting standards was made in November 2005, to be put into effect in little more than a year. The announcement generated praise (for its worthy intentions) and shock (for its ambition). America, despite having the world's deepest financial markets, is concerned about using market-based “fair-value” reporting and will only partially converge with international standards by the end of 2008, if then. Thailand and South Korea have yet to pledge convergence of their own systems with IFRS, despite having many years' more experience than China with market-based accounting systems.

Beansprout counters

To witness the scale of the work ahead, you need only look at the upheavals in a mainland firm when it lists its shares in Hong Kong, and must therefore bring its accounts up to international standards. In a developed market, the number-crunching ahead of a listing takes months. In China, it can take up to three years. And these are typically the best Chinese companies, able to afford the best advisors.

Certain conditions, such as “related-party” transactions, are almost impossible to bring into line with international standards, so they will be fudged. Under international accounting norms, deals between companies with overlapping ownership are supposed to be clearly disclosed. This is a sound principle in general and particularly appropriate for companies in countries where the government owns a piece of almost everything, and presses companies to take steps that may be bad for them (such as buying from troubled suppliers to protect jobs).

But because overlapping ownership is so common in China (the government still owns shares in almost every large company), detailing each transaction would overwhelm a financial report. For “pure state-controlled enterprises” there will be no disclosure requirement.

An equally large problem is the lack of accountants to process the raw numbers. In no other place in the world, and probably at no other time in history, have accountants been so sought-after as they are in China. By even the most generous reckoning, the country has fewer than 70,000 practising accountants, trying to do the work of anything from 300,000 to a million bean counters. To be an accounting student at a reputable school is to have a good job waiting. But even after several years of education, accountants require an apprenticeship, especially if they are to get to grips with international standards based on intellectually demanding principles rather prescriptive rules. Accountants in Britain, acknowledging the difficulties, are helping with the training.

Hong Kong and China are also hosting seminars where the new standards are presented to crowds of eager accountants; but the long lectures do not provide anything like enough of a guide to a person preparing, or auditing, a firm's books. It is said that Chinese officials have put pressure on many outsiders helping introduce the new regime to say that convergence has already taken place; that has clearly frightened many, and muffled criticism.

Silence, though, would be costly, says Martin Fahy, director of development for the Asia-Pacific region at the Chartered Institute of Management Accounts. “You can't have a functioning financial market and economy without objective and independent accounting. This is a test for not only China, but for the integrity of the accounting profession as well.”

To gauge accountants' understanding of the changes to financial reporting in China, a manager at a large investment-fund company has asked a string of accounting firms whether earnings will rise or fall or at least better reflect businesses' performance. It is hard to imagine a simpler test. No one had an answer.

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The Doha trade round

Just do it

Jan 11th 2007
From The Economist print edition

It is make-or-break time this spring for global trade talks

Get article background

TO TRADE wonks versed in psychoanalysis, President George Bush's embarrassing slip of the tongue last month was revealing as well as amusing. The Doha round of global trade talks, which he referred to as the "Darfur round", is, like the bloodied province of Sudan, an intractable problem that has consumed vast diplomatic efforts to little effect.

Last July Pascal Lamy, the director-general of the World Trade Organisation (WTO), put the talks into hibernation to protect them from the cruel American election season. To revive the round, he said, would require hard numbers: tighter dollar limits on farm subsidies; bigger percentage cuts on tariffs; and fewer loopholes and exceptions. So far he has had to settle for soothing noises. This week, for example, the mood music was provided by Peter Mandelson, the European Union's trade commissioner, who had lunch in Washington, DC, with his American counterpart, Susan Schwab; her boss, Mr Bush; and the President of the European Commission, José Manuel Barroso.

Ms Schwab likened the negotiations to "three-dimensional chess". Mr Mandelson talks more positively about the "end-game". Afterwards he said: "We came to Washington today looking for new impetus for the Doha negotiations and I believe we found it." According to the *Financial Times*, Mr Mandelson believes he has a unique personal relationship with America's president. Perhaps, like Tony Blair, he uses the same brand of toothpaste.

Some of this cast will meet again with their counterparts from India and Brazil at the end of the month for the World Economic Forum in Davos, although that event is better known for hobnobbing than for hard bargaining. Just before that, Mr Bush will make his state-of-the-union speech, which may reveal the strength of his desire to renew his fast-track "trade-promotion authority", which allows him to sign trade deals without Congress unpicking them. It expires on June 30th and without it no one will negotiate with him.

Unfortunately, Mr Bush is so unpopular that, the more he wants something, the less eager the Democrats who now control Congress may be to give it to him. They might attach strings to a fast-track deal that Mr Bush will find difficult to accept, such as generous compensation for workers displaced by foreign competition, or the enforcement of labour standards in America's bilateral agreements. Free-traders hope they will not demand too much, for fear of killing the Doha round and attracting the blame. But you cannot be arraigned for murdering a corpse. And so by the spring, the talks must show enough of a pulse to convince Congress that there is a deal worth sparing.

For that to happen, the Americans will first have to agree to screw down the limit on their trade-distorting farm subsidies, from about $22 billion to something like $15 billion-17 billion. Mike Johanns, the agriculture secretary, has been touring farm states, reminiscing about his childhood on an Iowa dairy farm and preaching the need for reform. Thanks to a boom in biofuels, America's farmers are enjoying high prices, but their cotton and rice handouts face stiff legal threats at the WTO and their corn subsidies this week came under attack from Canada. Mr Johanns will soon unveil his proposals for replacing today's farm programmes, which expire this year, with better ways to nurture cultivators.

If the Americans agree to pluck more of the feathers from their farmers' beds, the next move will fall to the Europeans. They seem ready to cut their agricultural tariffs by about half on average, but still want to spare too many "sensitive" products, such as beef and poultry, from the full force of the chop. If a compromise is reached, the third dimension of the chessboard includes Brazil, which is nervous about dropping industrial tariffs, and India, which has deep trepidation about opening its farm sector.

According to one of Mr Bush's lunch partners this week, his parting words to the two trade negotiators were: "Go to it, Susan. Go to it, Mandelson. Just get it done." No slips of the tongue there.

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Buttonwood

Oil's not well

Jan 11th 2007
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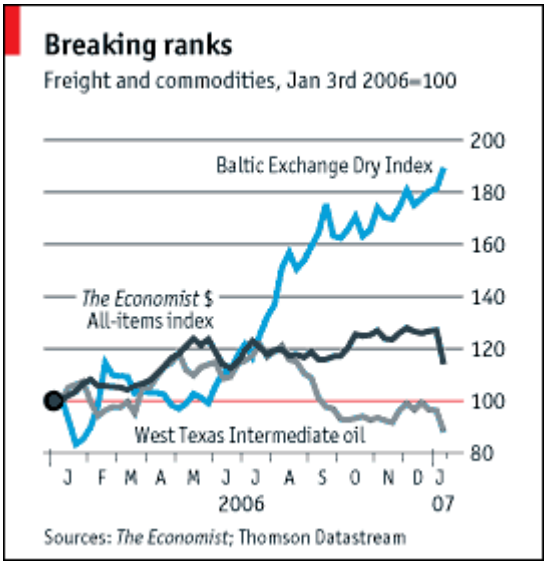
A fall in commodity prices raises concerns about the appetite for risky assets



WHAT a difference a year makes. When Russia cut off gas supplies to Ukraine in January 2006, crude prices jumped 19% within a few weeks. This year, a similar halt to supplies, because of an oil dispute with Belarus, was a one-hour wonder in the market. The crude price slipped close to an 18-month low on January 9th.

Oil has not been rescued by planned production cuts by the Organisation of the Petroleum Exporting Countries nor by speculation about an American or Israeli attack on Iran, both stories that would normally add several dollars to a barrel.

Some attribute oil's fall to the mild winter in the northern hemisphere, which saw New Yorkers sunbathe in early January. But copper has also been plunging in price, which cannot be blamed on the weather. Other metals have been dragged down in copper's wake. *The Economist* All-items commodities index, which excludes oil, fell 10.2% in the week to January 9th (see chart).

It is possible that falling commodity prices are signalling a rough patch ahead for the world economy. Perhaps they are catching up with the mood in the bond markets, where the inverted yield curve (in which short rates are higher than long rates) has, many believe, for months been pointing to a slowdown.

But the gloom thesis is not really borne out by recent economic data, which have shown, for example, strong American employment gains and buoyant German manufacturing. Nor are there other signs that investors are becoming depressed about the outlook for global growth. The Baltic freight index, a measure of trade flows, has more than doubled within the past year (also see chart).

It seems more likely that commodity prices are being driven down by two other factors. The first is supply, as higher prices have steadily led to increased production. Dresdner Kleinwort, a German bank, reckons that 2007 could be the first year in the current “super-cycle” in which the supply problems in a range of metals will start to subside. Meanwhile, users of oil have piled up inventories (although the most recent data showed a dip), leaving them less vulnerable to supply disruptions.

The second force is the flow of investment. It is surely no coincidence that the two commodities to suffer most in the recent sell-off are oil, the most-traded commodity, and copper, where speculative excess seemed greatest.

The enthusiasm for commodities in recent years has been part of a general move into “alternative assets”, a term that covers everything apart from shares, bonds and cash. The idea was to find assets that were uncorrelated with traditional holdings, a move that should improve the risk-reward trade-off of portfolios.

When such a fashion takes hold, it can rapidly gain momentum. This is because alternative-asset classes are often small and new investment flows drive prices up very quickly. To those participating in the trend, that confirms the wisdom of their original decision and encourages others to jump aboard.

With commodities, institutional investors often bought index portfolios, which meant putting money into raw materials, regardless of the fundamentals of each market. (One problem for copper is that its index weighting, along with that of other base metals, is being reduced.)

Oil is the biggest single component in most commodity indices. Citigroup estimates that, from 2003 onwards, financial flows had pushed up the price of oil by some $35 per barrel.

Such was the scale of investment flows that the structure of the commodity markets changed. Traditionally, futures

prices were lower than spot, or current, prices; a state known as “backwardation”. This allowed investors to buy the future and wait for its price to rise to the spot level. This gain, known as the “roll yield”, was an important part of commodity returns.

But financial speculation forced the futures price of some commodities well above the spot level, an unusual phenomenon known as “contango”. This meant investors in futures were losing money; in other words, the roll yield was negative. So whereas *The Economist*'s commodities index rose 28% in 2006, the Goldman Sachs Total Return Index (which incorporates both oil and the roll return) fell 15%.

That seems likely to have disillusioned many converts to the commodity cause. Speculative investors have been getting out of their positions. They may be worried about Vladimir Putin, but they are more worried about cutting their losses.

The commodity sell-off has been accompanied by a retreat from another risky asset class, emerging-market shares. Suddenly, investors are rediscovering political risk. The botched currency controls imposed by Thailand last month have been followed by Hugo Chávez's plans to nationalise Venezuelan businesses.

Suddenly, the *sang froid* of investors has been disturbed. God, as the 1960s film “Georgy Girl” explained, always has a custard pie up his sleeve.

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America's money-transfer business

Check for cheque-cashers

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Those who serve the unbanked find themselves unbanked, too

NO INNER-CITY area in America is complete without a sprinkling of cheque-cashing shops and money-transfer agents. Yet these days so-called money-service businesses (MSBs) are the unacceptable face of high-street finance. Many banks have stopped offering accounts to them, citing regulatory concerns.

Money-service firms play an important role, serving poor urban, often immigrant, customers whose access to banks is limited. For many, they are the only means of getting cash or sending remittances to family abroad. They are also a big business: in 2005, in New York State alone, money transmitters processed over 92m transactions together worth $96 billion.

Just as the unbanked need MSBs, so MSBs need banks: without access to payments systems, they cannot clear cheques or wire cash. But this access, by making them portals to the banking system, also makes them vulnerable to money launderers and financiers of terrorism.

Since the attacks of September 11th 2001, regulators have got a lot tougher when implementing anti-money laundering provisions. The Patriot Act, passed in the wake of the atrocity, added greatly to the pressure on banks to scrutinise their customers, and their customers' customers; it became, as one banker put it, a bit like a rail company being told it had to know everyone on its trains.

The result has been that most banks have closed their doors to the industry. JPMorgan Chase, a big provider of MSB accounts, did so in 2005. Bank of America followed last year, after concluding that the profits on offer no longer matched the increased risks. A few prefer to do the job themselves: HSBC has a service called Easy-Send, popular with Mexicans, which allows clients to wire money abroad.

Though a few sizeable banks still serve MSBs, they have become much choosier about who they will touch. David Landsman of the National Money Transmitters Association (NMTA), a trade group, says his members are rejected 94% of the time when trying to open bank accounts. Regina Stone, who licenses MSBs at the New York State Banking Department, says this has led to levels of concentration that need to be watched. A single bank now serves 70% of the state's cheque cashers, for instance; they would struggle to find new banks if it, too, quit the business.

The most frustrating thing, says Kevin Neuschatz of Choice Money Transfer, a remittance firm, is the indiscriminate nature of the regulatory crackdown. To get a state licence, MSBs have to go through a gruelling vetting process. Yet the law treats all money-service firms—from public companies like Western Union and MoneyGram to dodgier single-branch outfits—as one high-risk lump.

Even the most sophisticated MSBs face legal nasties: the state of Arizona seized some of Western Union's transfers to Mexico as part of a probe into illegal immigrants, though a court ruled this week that it had no authority to do so.

Some regulators talk of a crisis for MSBs, but there is no consensus on how to make life easier for them. Diana Taylor, New York's superintendent of banks, has recommended narrowing the definition of a high-risk money firm and offering incentives to banks to serve MSBs. The NMTA is urging the introduction of a federal bill that would give more guidance to banks. Charles Rangel, the new chairman of the House Ways and Means Committee, supports the cause. But it is not clear whether he would sponsor the legislation.

Meanwhile, some MSBs, fearing that the issue will never gain political traction, are taking matters into their own hands. A dozen firms in New York have joined together to apply for a banking licence. Do-it-yourself may soon be the only option.

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The art market

Going, going, up

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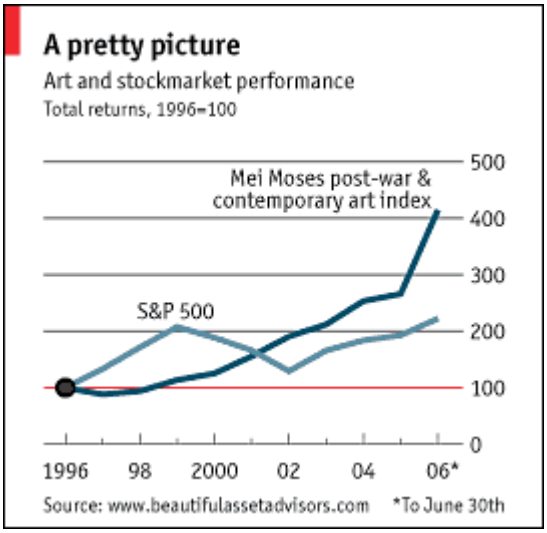
Easy money is pouring into the modern-art world

ARTISTS have often been celebrated for their rakish ways, but it is investors in art who these days are living dangerously. In 2006 the market for modern and contemporary art had a record-breaking year. New York's autumn auctions of Impressionist, modern and contemporary art raised more than $1 billion. A portrait by Gustav Klimt, a Picasso painting and one of Jackson Pollock's largest drip paintings each fetched as much as $130m.



China is the latest darling. Sotheby's and Christie's, the biggest fine-art auction houses, sold $190m of Asian contemporary art, most of it Chinese, in 2006, up from $22m just two years before. At a Beijing auction in November a painting by Liu Xiaodong, one of the so-called cynical realists, sold for $2.7m, the highest price ever paid for work by a contemporary Chinese artist. Phillips de Pury, another auction house, is hosting a large sale of Chinese contemporary art on February 6th in London that will feature Fang Lijun and Wang Guangyi, two fashionable Chinese artists. With so much money sloshing around the art world, it's not just cynical realists who worry that the market is overheating.

Among the anxious are Jianping Mei and Michael Moses of New York University, who compile an index which shows that prices of post-war and contemporary art have done better than the S&P 500 Total Return index over the past ten years (see chart). Mr Moses points to a five-year compound annual growth rate of above 20%; the last time this happened was in the frenzied years of 1985 to 1990. Though he does not believe a crash is imminent, he notes that when that bubble burst the Mei Moses index dropped by over 60% in the five following years.

Three forces are driving prices higher, says Karl Schweizer, head of art banking at UBS, a Swiss bank. The rich are getting richer, they are more comfortable with alternative assets such as art and there is a shortage of supply—few “classic” modern artists (who worked from 1870 to 1950) and post-war artists have produced work of lasting value. Some investors are even venturing into the riskiest area of the market, so-called “wet art” recently off the easel. The market is overcrowded. But the potential for speculative gains is irresistible to some would-be connoisseurs.

Many believe prices will continue to rise. Investors come from further afield than before, and they have very deep pockets. Whereas Japanese investors mainly bought French Impressionists in the late 1980s, today's emerging buyers from places such as Russia, China and Latin America have more eclectic tastes. They are also better informed thanks to the proliferation of art indices, art fairs and internet websites such as Artprice.com.

Art is not the only inflated asset class, either. Global liquidity is such that money is pouring into any investment with the potential to produce a quick return. If liquidity dries up, art is unlikely to fare any better than stocks or bonds. But at least a Jackson Pollock looks better hanging on a wall than a share certificate does.

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About sponsorship

Economics focus

What the World Bank knows

Jan 11th 2007
From The Economist print edition

...And what it only thinks it knows

NOW that many of its biggest customers no longer really need its money, the World Bank prides itself on the ideas and advice it offers alongside its cash. It calls itself the “Knowledge Bank”. For the first time in more than 20 years, it has invited a group of top academic economists, chaired by Angus Deaton of Princeton University, to inspect its intellectual books in full. The inspectors liked a lot of what they found*. But they said the Knowledge Bank was too often guilty of breaching prudential limits. Its leaders have staked out bold positions on some of the biggest questions in development without enough intellectual capital to back them up.

The bank employs almost 10,000 people. But only 77 now work full-time as researchers in its economics department, and the headcount has fallen in recent years. (About the same amount of research manpower is also scattered throughout the bank's other divisions and regions.) They produce hundreds of studies a year—from panoramic surveys of global inequality to close examinations of pesticide poisoning. A number of these papers make it into the top academic journals; some are put between glossy covers in the bank's armada of “flagship” reports; more collect dust on the shelf.

Some of their work is wonkishly heroic. While others emote about the world's poor, the bank's researchers try to count them, despite all the formidable conceptual challenges that poses. Its project to gauge purchasing power around the globe is now reckoned to be the world's biggest statistical initiative. Economists could say little authoritatively about world growth or poverty without it.

The bank's inspectors were suitably impressed by this invaluable spadework. They would, indeed, like to see a lot more of it. Too much of the bank's work, they complained, tried to do what they, as academics, could do better. It showed just enough technical aplomb to make it into a second- or third-tier journal, but no other discernible purpose.

But if they were withering about this “long tail” of inconsequential work, they were much ruder about the way more striking research findings were used by the bank's top brass. They accuse the leadership of taking “new and untested results as hard evidence that its preferred policies work”; and of then using this research to “proselytise on behalf of bank policy”. This has a cost, the inspectors point out. “Placing fragile selected new research results on a pedestal invites later recrimination that undermines the credibility and usefulness of all bank research.”

In the main, the academics levelled this charge at the bank's big-think studies of globalisation. Comparing scores of countries in one statistical sweep, these studies concluded that the poor do not get left behind by growth; that poverty falls when tariffs are cut; and that aid works, but only if the governments that receive it pursue “sound” policies. These results, especially the last, have been enthusiastically promoted by the bank's leaders. The underlying propositions are probably true.

It is inconvenient, then, that the results tend to fall off their pedestals when prodded or poked a little. In 1997, for example, Craig Burnside and David Dollar published a paper showing that aid results in faster growth, but only in countries with stable prices, lots of trade and prudent budgets. The paper eventually appeared in the *American Economic Review*, as well as in a bigger research report the following year on “Assessing Aid”. This newspaper welcomed the work, and its message helped to fire the new enthusiasm for aid shown at the UN's Monterrey Conference in 2002.

Unfortunately, the study, like many in the genre, proved fragile. Critics have shown that adding four more years to the sample (and plugging some other gaps) undermined the result. Using more plausible measures of aid and policies had the same effect. And the paper did not convincingly disentangle cause and effect: perhaps faster growth attracts more aid money from donors keen to back a winner.

According to François Bourguignon, the bank's chief economist since 2003, “Assessing Aid” was championed by the bank's leaders because it was “convenient”. The work confirmed a plausible intuition they already held. “It was a very good piece of research the bank's management could use for its advocacy and it was difficult to resist.”

This temptation was easy to understand. The bank spent much of the 1990s under attack from critics on the left and

right, claiming that trade was akin to imperialism, growth bypassed the poor, or that aid was money down a rat hole. Unsurprisingly, it sent in its best economists to lance its detractors.

Small-think

These battles, and the economic weapons used in them, have since moved on. None of the bright young things in development economics today, several of whom contributed to this evaluation, do big cross-country studies. They show more interest in absenteeism among doctors, intestinal worms in children or flip charts in schools than in the grand questions of trade, aid and growth. And the advice economists give to countries aspiring to prosperity no longer comes off-the-rack. It is more tailored to the idiosyncrasies of time and place.

True to this intellectual fashion, the evaluators urge the bank's economists to immerse themselves in the bank's work “in the field”. They also call on them to unbutton their lips, crying foul if their superiors over-egg (or ignore) their results. After all, the best way for the bank to disarm its dafter critics is to replace them with more sophisticated ones. That is a role its shrinking band of economists should be encouraged to play.

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* The evaluation and responses are available at tinyurl.com/yck7wc.

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Space travel

Sealing wax and string

Jan 11th 2007
From The Economist print edition

The world's scientists are attempting to salvage something useful from America's wrongheaded manned space programme

THE KOBAL COLLECTION

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WHEN George Bush redirected America's space agency, NASA, away from scientific research and towards manned space exploration in 2004, many were disappointed. Human spaceflight is expensive and, since the end of the *Apollo* programme in 1972, has yielded little or nothing in the way of science. Robotic missions, by contrast, have visited every planet in the solar system, many moons, several asteroids and even the odd comet. This week plans were unveiled to mitigate the disaster. Scientists from three continents, having accepted the inevitable, have been working quietly on plans to rescue something useful from it. Intriguingly, their chosen forum has been not NASA, but the European Space Agency, ESA.

The American plan is a straightforward piece of human-centred exploration. The idea is to send astronauts to the moon by 2020, recapitulating *Apollo*, but this time staying. According to proposals outlined by NASA last month, a robotic Lunar Reconnaissance Orbiter scheduled to be launched in October 2008 will search for a suitable place to build the outpost. A decision on the base's location will be made by 2010. A Crew Exploration Vehicle, the first proposals for which look uncannily like those used in the *Apollo* missions, is expected to be launched in 2014. Four astronauts would be sent to establish a lunar base in 2020 with, by 2024, crews of astronauts staying there for up to six months at a time. It is all so precisely choreographed that it sounds routine, boring even.

In truth, such proposals are expensive and dangerous. So alongside its lunar plans, NASA also unveiled a “global exploration strategy”. It wants to share the risk and the cost with other countries. These junior partners include Australia, Britain, Canada, China, France, Germany, Italy, India, Japan, Russia, South Korea and Ukraine. It is these junior partners that have given the scientists their chance.

Man and machine

The reason is that junior though they may be, if they are going to help pay the piper, they will also wish to call at least some of the tunes. The main aim of the European strategy—the first versions of which were unveiled following a workshop held in Edinburgh this week—is to launch more robotic missions to the next destination on the American itinerary after the moon: Mars. The European agency plans two reconnaissance missions. *Mars Sample Return* could be launched in 2011 and would, as the name implies, return Martian rocks to Earth for analysis. *ExoMars*, which could be launched in 2013, would use a rover to search for vital signs or, failing those, for evidence that life did once exist there.

That Europe would ever send astronauts to Mars independently of America seems unlikely, although ESA has refused

to rule it out altogether. Getting to Mars would take six months, compared with three days to travel to the moon. Rescuing stranded astronauts would be almost impossible. Moreover, there is the question of whether a human mission would ever be necessary. At present, remotely controlled devices cannot drill more than a couple of metres below the surface, but new designs may improve on this.

Meanwhile, NASA's scientists are chipping in by thinking of useful tasks that people could do on the moon if sent there. So far, they have come up with two.

One is to search for signs of the origin of life. At first sight, the moon is an odd place to do this. But its being both lifeless and inactive means organic chemicals from the early solar system may have been preserved there. Those chemicals are unlikely to have come from living things, but they might represent the molecular precursors of life. If they do exist, though, they are probably buried under debris from subsequent meteorite impacts, so humans would be needed to help dig them up unless better technology becomes available. Moreover, having a geologist around to identify items as they are found would be quicker than returning samples to Earth for analysis.

The second retrospective attempt to bolt some science on to Mr Bush's vision is the idea of building radio telescopes on the moon. The uppermost layers of the Earth's atmosphere absorb particular radiowaves and stop astronomers looking at things in these wavelengths. This is a shame because such radiation might show what was happening when the first stars formed in the universe, some 500m years after the Big Bang. Building telescopes on the moon would not only allow astronomers to see these wavelengths but would also let them construct an array of telescopes many kilometres across on firm ground. That would allow astronomers to discern fine details of what they were looking at.

Meanwhile, Eurosceptics and fans of Dan Dare alike will be pleased to learn that at the same time as ESA was laying out its plans, Britain's Particle Physics and Astronomy Research Council was staking its own claim to the moon. It has completed a feasibility study of two robotic missions that would attempt to exploit Britain's strengths in building small satellites and making miniaturised scientific instruments. *MoonRaker* would land on the lunar surface and date the geological samples it found there. *MoonLite* would listen to the noise made by missiles it would fire into the moon. Either could provide a vital contribution to NASA's ambition of establishing a moon base, according to the scientists who developed them. And Britain could pretend it was a power in space.

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Evolutionary psychology

Breathe in, girls

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For two thousand years men have written about ladies with small waists

SOME gentlemen may prefer blondes, but almost all seem to like a waist to hip ratio of between 0.6 and 0.7. Breasts and bottoms should be substantial; waists should be slim. It should be the case all over the world and throughout human history.

That, at least, is the prevailing theory among evolutionary psychologists. The ratio in question correlates with hormone levels promoting maximum female fertility and health, so men who prefer curvy women will have more children. Devendra Singh, of the University of Texas, in Austin, has proved the point in the past by measuring the vital statistics of *Playboy* models. He found that centrefolds vary in weight but not in their hourglass shapes.

Playmates' shapes, however, reveal only the psychology of *Playboy*'s mainly American readers—and do so only since 1953, when Marilyn Monroe appeared in the first issue. To make a stronger case for the theory, Dr Singh and his colleagues have turned to historical descriptions of beauties in the literature of Britain, China and India.

It is hardly poetic to write about a knockout's two-thirds ratio, nor equally appropriate across cultures to scribe complementary descriptions of bosoms and behinds, so the analysis focused on romantic references to female waists. Among the results, published in the *Proceedings of the Royal Society*, all 66 entries about waist size in the sample of British literature from the 16th to the 18th centuries described the waists as small or narrow—even though there were nearly four times as many romantic references to ladies who were plump overall, than there were to slim women.

Similarly, every beauty portrayed in first- to third-century Indian epics Mahabharata and Ramayana, and in Chinese sixth dynastic Palace poetry, had a slender waist whenever that part of the body was mentioned. This is not proof, but it adds weight to the idea that men have been predictable since the beginning of time.

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Cosmology

I spy with my little gravitational lens

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How to map the invisible

SEVENTY years ago Fritz Zwicky, an astronomer at the California Institute of Technology, discovered that galaxies are not big enough. The visible matter they contain (stars, gas and so on) does not have enough gravity to hold them together. To explain this bewildering missing mass—a result verified independently by many of Zwicky's colleagues—he suggested that galaxies (and therefore, by extension, the universe) contain a lot of additional, invisible matter.

Dark matter, as the invisible stuff is now referred to, has turned out to be one of the most mysterious things around. Subsequent work has shown that it cannot be composed of the same particles (ie, protons, neutrons and electrons) as the visible stuff. But its gravity not only holds galaxies together, it controls their distribution in space—as a study announced in Seattle at this week's meeting of the American Astronomical Society, and published simultaneously in *Nature*, confirms.

The Cosmic Evolution Survey is the single largest project yet undertaken by the *Hubble* space telescope. It spent over 1,000 hours of the instrument's valuable observing time examining a section of the firmament about nine times the size of a full moon. Richard Massey, one of Zwicky's successors at Caltech, and his colleagues have used the data collected by the survey to draw the most extensive map of dark matter yet attempted.

They did so by employing a technique called gravitational lensing. This exploits one of the predictions of Einstein's general theory of relativity: that the path of a beam of light (which is a straight line in empty space) is bent inwards by the gravity of a massive object. The result is that such objects act as lenses, distorting the images of anything behind them.

Since dark matter is very massive indeed (there is about six times as much of it around as there is visible matter) it makes good gravitational lenses. Dr Massey and his colleagues were able to map the matter (both dark and visible) in the bit of the firmament covered by the Cosmic Evolution Survey by looking for characteristic distortions in the shape of distant galaxies that only *Hubble*, which is beyond the image-blurring effects of the atmosphere, can see. Regions rich in distorted galaxies were assumed to be places where large amounts of matter were present between the distorted galaxies and Earth.

That, however, only provided the researchers with a two-dimensional map of such concentrations of matter. Two further refinements were necessary: to work out the third dimension—distance from Earth—and to subtract the effect of visible matter in order to be left with the distribution of dark matter pure and simple.

The trick they used to perform the first refinement was a piece of basic optics. This is that a lens produces its biggest effect when it is halfway between source and observer. The most distorted galaxies, therefore, were those twice as far from Earth as the gravitational lens distorting them. And the distance of such galaxies from Earth can be measured.

That measurement uses another sort of optical distortion—this time of the wavelength of light. The expansion of the universe causes galaxies to recede from one another, and light from a receding object appears redder than that from a stationary object. The farther away a galaxy is, the faster it is receding and the bigger this red shift will be. Measure the distance to the most distorted galaxies and halve it, and you know roughly where your lenses are.

The result is a three-dimensional map of matter. To see which bits of it are dark matter simply requires superimposing the known pattern of visible matter.

Doing so is instructive, as Dr Massey's colleague Nick Scoville reported to the meeting. Dark and visible matter usually coincide. Their overlap confirms the hypothesis that dark matter is the skeleton upon which visible matter is supported, and also lends weight to a second idea—that galaxies form where dark matter accumulates at high densities, pulling visible matter with it. This study, then, has cast light on the darkest of matters and promises a far better understanding of the structure of the universe.

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Neuroeconomics

The triumph of unreason?

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From The Economist print edition

Why you are not always rational with your credit card

NEOCLASSICAL economics is built on the assumption that humans are rational beings who have a clear idea of their best interests and strive to extract maximum benefit (or "utility", in economist-speak) from any situation. In this account, price is a signal that helps you decide the combination of work, spending and saving that suits you best. Neoclassical economics assumes that the process of decision-making is rational. But that contradicts growing evidence that decision-making draws on the emotions—even when reason is clearly involved.

The role of emotions in decisions makes perfect sense. For situations met frequently in the past, such as obtaining food and mates, and confronting or fleeing from threats, the neural mechanisms required to weigh up the pros and cons will have been honed by evolution to produce an optimal outcome. Since emotion is the mechanism by which animals are prodded towards such outcomes, evolutionary and economic theory predict the same practical consequences for utility in these cases. But does this still apply when the ancestral machinery has to respond to the stimuli of urban modernity?

One of the people who thinks that it does not is George Loewenstein, an economist at Carnegie Mellon University, in Pittsburgh. In particular, he suspects that modern shopping has subverted the decision-making machinery in a way that encourages people to run up debt. To prove the point he has teamed up with two psychologists, Brian Knutson of Stanford University and Drazen Prelec of the Massachusetts Institute of Technology, to look at what happens in the brain when it is deciding what to buy.

Discounting the future

In a study just published in *Neuron*, the three researchers asked 26 volunteers to decide whether to buy a series of products such as a box of Godiva chocolates or a DVD of the television show "Sex and the City" that were flashed on a computer screen one after another. In each round of the task, the researchers first presented the product and then its price, with each step lasting four seconds. In the final stage, which also lasted four seconds, they asked the volunteers to make up their minds. To make the task more realistic, two randomly selected sales were real—paid for out of a $40 credit from which the volunteer got to keep the change, as well.

While the volunteers were taking part in the experiment, the researchers scanned their brains using a technique called functional magnetic resonance imaging (fMRI). This measures blood flow and oxygen consumption in the brain, as an indication of its activity.

The researchers found that different parts of the brain were involved at different stages of the test. The nucleus accumbens—known from previous experiments to be involved in processing rewarding stimuli such as food, recreational drugs and monetary gain, as well as in the anticipation of those rewards—was the most active part when a product was being displayed. Moreover, the level of its activity correlated with the reported desirability of the product in question.

When the price appeared, however, fMRI reported more activity in other parts of the brain. Excessively high prices increased activity in the insular cortex, a brain region linked to expectations of pain, monetary loss and the viewing of upsetting pictures. The researchers also found greater activity in this region of the brain when the subject decided not to purchase an item.

Price information activated the medial prefrontal cortex, too. This part of the brain is involved in rational calculation, and is known from previous experiments using trading games to be involved in balancing the expected and actual outcomes of monetary decisions. In this experiment its activity seemed to correlate with a volunteer's reaction to both product and price, rather than to price alone. Thus, the sense of a good bargain evoked higher activity levels in the medial prefrontal cortex, and this often preceded a decision to buy.

People's shopping behaviour therefore seems to have piggy-backed on old neural circuits evolved for anticipation of reward and the avoidance of hazards. What Dr Loewenstein found interesting was the separation of the assessment of the product (which seems to be associated with the nucleus accumbens) from the assessment of its price

(associated with the insular cortex), even though the two are then synthesised in the prefrontal cortex. His hypothesis is that rather than weighing the present good against future alternatives, as orthodox economics suggests happens, people actually balance the immediate pleasure of the prospective possession of a product with the immediate pain of paying for it.

That makes perfect sense as an evolved mechanism for trading. If one useful object is being traded for another (or, in the modern context, for hard cash), the future utility of what is being given up is embedded in the object being traded. Emotion is as capable of assigning such a value as reason. Buying on credit, though, may be different. The abstract nature of credit cards, coupled with the deferment of payment that they promise, may modulate the “con” side of the calculation in favour of the “pro”.

Whether it actually does so will be the subject of further experiments that the three researchers are now designing. These will test whether people with distinctly different spending behaviour, such as miserliness and extravagance, experience different amounts of pain (or, at least, show different patterns of brain activity) in response to prices. They will also assess whether, in the same individuals, buying with credit cards eases the pain compared with paying by cash. If they find that it does, then credit cards may have to join the list of things such as fatty and sugary foods, and recreational drugs, that subvert human instincts in ways that seem pleasurable at the time but can have a long and malign aftertaste.

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About sponsorship

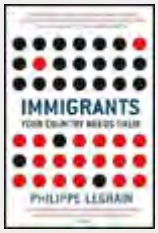
Immigrants

Waves of fear

Jan 11th 2007
From The Economist print edition

In a controversial new book a British economist asks why so many people are against the free movement of labour

Immigrants: Your Country Needs Them
By Philippe Legrain



Little, Brown; 374 pages; £12.99

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Reuters

FOR years now, free trade and free movement of capital have been respectable economic tenets, espoused—if sometimes reluctantly—by most politicians. But no sane politician in the rich world would advocate free movement of labour. As a result, most people are trapped in their native lands, never likely to have a legal opportunity to see the world outside.

Philippe Legrain, a liberal economist who once worked for *The Economist*, has already written a book stoutly defending globalisation. Now he takes on an even more emotive subject. There is not a shadow of doubt about his own views. He wants open borders. He believes that they will, on balance, enrich both sending and receiving countries; he thinks diversity generally makes life more interesting; and he detests bureaucratic restrictions on human freedoms. “Immigrants are not an invading army,” he points out. “They come in search of a better life. They are no different to someone who moves from Manchester to London, or Oklahoma to California, because that is where the jobs are. Except that a border lies in the way.”

Mr Legrain has assembled powerful evidence to undermine the economic arguments against immigration. In the case of skilled migrants, that is relatively easy. But the migrants who arrive in the back of lorries and huddled in small boats are unskilled. For them, there are hardly any legal tracks across borders. Yet, argues Mr Legrain, they too bring economic benefits and do “little or no harm” to the wages or employment prospects of native workers. As for the economic impact on sending countries, many now gain more from remittances than from official aid or inward investment. He quotes approvingly a government minister from the Philippines who says: “Overseas employment has built more homes, sent more children of the poor to college and established more business enterprises than all the

other programmes of the government put together."

Mr Legrain makes a robust economic case—though he surely understates the impact of immigrants on holding back the pay of the poorest, often themselves the children of immigrants. He is more successful at rebutting the argument that taxpayers give willingly only to those with whom they feel some kinship and that immigration, therefore, jeopardises support for the welfare state. A willingness to pay taxes to support the poor is independent of levels of immigration, he shows.

Less convincing are his proposals for encouraging immigrants to go home after a period of working abroad. If immigration were temporary, he reasons, people might tolerate it more readily. So why not get immigrants to post a bond on arrival, say, or have a portion of their wages withheld until they leave? The trouble with such ingenious ideas is that immigrants from the world's poorer countries have many reasons to stay overseas, especially in Europe or America. The financial gains are huge, but they are by no means the only rewards. Life is much easier where there is the rule of law, less petty corruption and a better health-care system than exists at home.

But hostility to immigration is not just, or indeed mainly, about economics. It is based on fear of change and on racism. It has also, since the World Trade Centre attacks, been based on growing worries about Muslim terrorism. Such anxieties are not easily assuaged by economic logic. It is striking, for example, how little serious protest there was in Britain at the absorption of over 500,000 east European immigrants in the two years after Poland and nine other countries acceded to the European Union in May 2004. Surely at least one reason was that these white Christian Europeans look and (seem to) think extraordinarily like most British people, and their children and grandchildren will be distinguishable only by their unpronounceable names.

By contrast, many Muslim immigrants and their children have become more estranged, not less. Their ambivalence towards the West and its secular liberalism has appeared to grow, not diminish. It is, of course, wholly unreasonable to see most Muslims as potential terrorists—but reason may not have much chance here.

So no government in the rich world is likely to open its borders to all comers, as Mr Legrain urges. For politicians, the tricky question is who to let in. And how to define a coherent policy? The harsh truth is that voters find it easier to accept immigrants who look and behave as they do than those who are different. That, as a basis for policy, still leaves most of mankind outside the gates.

Immigrants: Your Country Needs Them.
By Philippe Legrain.
Little, Brown; 374 pages; £12.99

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About sponsorship

Boeing and Airbus

Head-to-head in the clouds

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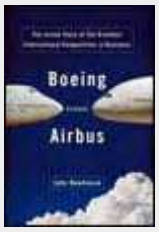
AFP

Tail of woe

Boeing Versus Airbus: The Inside Story of the Greatest International Competition in Business
By John Newhouse



Knopf; 272 pages; $26.95

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THE struggle over the world market for big jet aircraft makes for epic narrative. Involving billions of dollars and a great deal of national pride, the story of two industrial giants fighting each other—Boeing from the new world, Airbus from the old—is so gripping that there is nothing quite like it in global business. The cost of developing the product is astronomical, it takes years to come to market and is then in the air for just a generation. Coke versus Pepsi, Sony versus Samsung, Unilever versus Procter & Gamble—none of those battles has quite the same grandeur nor the same high stakes. Only Big Oil in its desperate search for new reserves comes close, but in that business there are several players, and the rules are mostly set by a producers' cartel.

In the civil aircraft business the market rules, though governments are more than keen spectators, pouring in hundreds of millions of dollars of support (openly) in Europe, less directly in America. In this business make one bad bet, or suffer a single flop, and you have to live with the consequences for years. Both companies have had that experience in the past decade. The reality of a global duopoly is that each company is forced to press ahead with difficult and risky technology, bombarding the market with new products that should make the life of ordinary people better, whether they are flying the Pacific on business or enjoying a cheap weekend in Prague, borne there by a budget airline.

Boeing is America's biggest exporter, while Airbus is a potent symbol of European industrial prowess. There is no better commentator on this sporting struggle than John Newhouse, a journalist-cum-foreign-policy adviser, who made his name back in 1982 with a book on big jets, called “The Sporty Game”. A quarter-century on, he revisits the aerial field of dreams to catch up on the latest play. An American who has studied and written extensively about Europe and advised the Clinton administration on it, he knows both sides of the Atlantic well enough to have a wry, disinterested attachment.

For most of the 1990s the story was Airbus, the European underdog, relentlessly pursuing Boeing, the world leader. The European group made a sustained sprint to go from 20% of the market to snatching the lead from Boeing in 2001. Then, after five years on top, Airbus's world started falling apart, or so it seemed. Last year Boeing regained the lead, selling more planes than the European company for the first time since 2000. Now Airbus is in decline.

In less than three years Boeing has won a record-breaking 500 orders for its new middle-sized long-haul aircraft, the 787. By contrast, Airbus's super-jumbo, the A380, is running late and its new A350 is being redesigned after heavy criticism from potential customers. Airbus has had four different bosses in the past two years, as production delays led to boardroom squabbling between its German and French shareholders. The British, in the shape of BAE Systems, which used to own a fifth of Airbus, quickly sold up and slipped away, turning their back on European civil aerospace to concentrate on America.

Boeing now has a decisive lead in the most lucrative part of the market—for wide-bodied long-haul jets—with one established product, the ubiquitous 777, and the hugely successful new 787. Airbus's competing product is several years away and orders are only trickling in for its huge gamble, the super-jumbo that will be capable of carrying 555 passengers. So is Airbus doomed, as some commentators suggest? Not at all: the reality is that both companies have record order books and overworked factories, and they face a market that is set to keep growing, albeit with cyclical ups and downs.

Boeing executives are careful to avoid crowing over their latest triumphs; ten years ago Boeing's planes were losing height as Airbus rose. Its factories around Seattle ground to a halt for a month as production delays accumulated. In the past three years Boeing's top management has been rocked by corruption and sex scandals that cost the jobs of

two chief executives and one potential successor. To this day Boeing is seen with suspicion in some parts of the Pentagon, as a result of the industrial espionage and contract rigging that were rife a few years ago.

But, as Mr Newhouse's clinical dissection of Airbus's latest problems makes clear, the most serious issue the European champion faces is its internal divisions. The French suspect the Germans of wanting to grab a bigger share of the high-tech work and the jobs that go with it. The Germans (and the British in their time) were happy to give up the soft loans from government—to settle a long and acrimonious trade dispute with America—but both suspected the French would keep doling out money to secure more Airbus work for France. Airbus should soon bounce back in the market, if only because airlines—the manufacturers' customers—would never tolerate an American monopoly. But how long that will take is anyone's guess.

Boeing Versus Airbus: The Inside Story of the Greatest International Competition in Business.
By John Newhouse.
Knopf; 272 pages; $26.95

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New fiction 1

Who to love?

Jan 11th 2007
From The Economist print edition

JOHN POLIDORI, who was born just as the 18th century drew to a close, was a doctor, gambler and literary dabbler. Unfortunately for him, he was not much good at medicine, cards or writing. His main claim to fame was that he spent a few unhappy months as Lord Byron's personal physician.

Things might have turned out better for him. He was at the Villa Diodati on Lake Geneva in 1816 when Byron challenged his guests to write a ghost story. Only two of the company did anything about it. Mary Shelley gave the world “Frankenstein” and Polidori produced a short story called “The Vampyre”.

“The Vampyre” was a hugely popular success and pioneered a whole new genre of horror fiction. But, for Polidori, there was a hitch. The story was published anonymously, without his permission, and was universally assumed to be Byron's work.

Polidori also looked a lot like Byron: dark hair, pouty lips, pale pretty features. This, in Benjamin Markovits's thoughtful and enjoyable third novel, leads to a further case of mistaken identity. Polidori is spotted on a balcony at Byron's London pad by a bookish damsel called Eliza, who imagines the handsome loser is the handsome lord. Later, Eliza and Polidori meet by chance. Again she thinks he is Byron. He plays along. She is instantly smitten, he is intrigued and by degrees they fall in love. The question is what will happen when Eliza finds out that Polidori is not who he says he is. Mr Markovits teases out the suspense with wit and sensitivity.

The real-life Romantics, and Byron in particular, have inspired no end of dreadful fictional spin-offs—remember Ken Russell's “Gothic”? Happily, this is a cut above. After a slightly shaky start, in which Mr Markovits struggles to get the tone right, “Imposture” settles down and develops into a quirky, psychologically perceptive love story. He has great fun with some of the well known facts of Byron's messy personal life and with some of the less well known facts of Polidori's. Admirers of the Romantics will find plenty to enjoy; other readers will too.

Imposture.
By Benjamin Markovits.
Faber and Faber; 200 pages; £10.99.
To be published in America by Norton in May

Imposture
By Benjamin Markovits

To be published in America by Norton in May
Faber and Faber; 200 pages; £10.99.

Buy it at
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Amazon.co.uk

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New fiction 2

Who to believe?

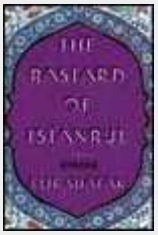
Jan 11th 2007
From The Economist print edition

ELIF SHAFAK is an award-winning novelist who was little known outside her native Turkey before a brush with the authorities last year over her sixth novel, “The Bastard of Istanbul”.

This is a deftly spun tale of two families—one Armenian-American and the other Turkish—who are burdened by dark secrets and historical tragedies rooted in a common Istanbul past. The heroine is Asya Kazanci, a rebellious teenager born out of wedlock (hence the title) with a passion for nihilism and Johnny Cash. She shares a crumbling Ottoman mansion in Istanbul with her mother, three aunts, a grandmother, a step-great-grandmother and a cat, each one endearingly eccentric and strong-willed.

Asya's counterpart is Armanoush Tchakmakchian, an Armenian-American teenager whose interest in her people's history is awakened during a series of late-night exchanges with an online community of fellow diasporans called Café Constantinopolis. The story comes to a head when, fired by a desire to explore her past, Armanoush travels secretly to Istanbul where she stays with the Kazancis and discovers that, despite their historic differences, Turks and Armenians have more in common than not.

The Bastard of Istanbul
By Elif Shafak



Viking; 368 pages; $24.95

Buy it at
Amazon.com
Amazon.co.uk

One issue does separate them, and that is, of course, their differing beliefs as to what happened between their two peoples in the confrontation of 1915. As Asya explains in one of the book's most compelling passages, Armenians cling to history because “your crusade for remembrance makes you part of a group where there is a great feeling of solidarity”, whereas “Turks like me cannot be past-oriented not because I don't care but because I don't know anything about it.”

Asya is pointing to the grim realities of an education system that stifles free thinking and whitewashes history. Few Turkish children are taught that their Ottoman forebears killed up to 1m Armenians just after the start of the first world war. Rather, their schoolbooks state that it was the

Armenians who slaughtered the Turks in far greater numbers than they were slaughtered themselves.

Subtly, yet firmly, Ms Shafak sets the record straight. Armanoush's great-grandfather, a poet, is among hundreds of Armenian intellectuals who were rounded up by Ottoman soldiers on April 24th 1915, in a bid to “get rid of the brains” first. Her grandmother is an orphan, who survived the “death march” to the Syrian desert.

Incensed by these depictions in a work of fiction, last June a group of ultra-nationalist Turkish lawyers tried to bring a case against Ms Shafak, arguing that her book had been manufactured by “imperial powers” who were bent on dismembering Turkey. Much like Orhan Pamuk, who also faced charges over comments he made about Armenian-Turkish history to a Swiss newspaper and who, last November, became the first Turk to win the Nobel prize for literature, Ms Shafak's crime was to have drawn attention to the Armenian genocide.

Setting a bizarre precedent, prosecutors rested their case on the words of one of the fictional Armenian characters in her book, which was originally written in English, but which is only now coming out in America. The offending phrase talked of “genocide survivors, who lost all their relatives at the hands of Turkish butchers in 1915”. That phrase and other unflattering references to Turkish behaviour were deemed to have violated the penal code under which insulting “the Turkish identity” is a criminal offence.

Ms Shafak was eventually acquitted after the court agreed that she could not be convicted on the basis of comments made by a fictional character. She remains undaunted by her travails: “When I write, I don't calculate the consequences of what I'm writing,” she noted recently. “I just surround myself with the story.”

The Bastard of Istanbul.
By Elif Shafak.
Viking; 368 pages; $24.95

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New fiction 3

Watch out Dan Brown

Jan 11th 2007
From The Economist print edition

EVER since “The Da Vinci Code” became a worldwide bestseller, religious thrillers have become increasingly popular. “The Book of Names”, by Jill Gregory and Karen Tintori, who have written together before under the pseudonym Jillian Karr, is an intelligent suspense thriller that combines the Kabbalah, tarot and the forces of good and evil into a tense murder mystery reminiscent of Sam Bourne's “The Righteous Men”.

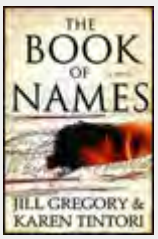
Following a childhood near-death experience, David Shepherd, a Georgetown University professor, is haunted by thousands of names which he is compelled to record in a journal. When people on his list start appearing in news reports about suspicious deaths, Shepherd's fears lead him to consult a rabbi specialising in Kabbalah. Here he learns of the Book of Names, a biblical text that according to Kabbalistic tradition contains the names of each generation's 36 righteous souls—the Lamed Vovniks or Hidden Ones. Legend holds that if all 36 Hidden Ones in a generation are killed the world will end.

From the rabbi Shepherd also learns of the Gnoseos, an international cult that for centuries has been eliminating the Hidden Ones in order to destroy God and bring in a new satanic age. Now, with the Gnoseos nearing their goal, his adored stepdaughter's life in danger and the world spinning towards destruction, it falls to Shepherd to unlock a system of mysterious letters and numbers in order to save mankind.

“The Book of Names” self-assuredly fulfils the requirements of the religious thriller in terms of characterisation, plot and pace. Where it falls down slightly is in its action sequences, which are overwritten; less is definitely more when it comes to blood-spurting and fist-pounding. On the whole, though, this is a minor distraction. With a first printing of 75,000 copies, rights sold in 15 countries and the addition of many religious legends, this story has real breadth. “The Book of Names” gathers together all the elements that could make it a huge commercial success.

The Book of Names.
By Jill Gregory and Karen Tintori.
St Martin's Press; 304 pages; $19.95.
To be published in Britain by Snowbooks in July

The Book of Names
By Jill Gregory and Karen Tintori



St Martin's Press; 304 pages; $19.95.
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New cinema

Mentioning the war

Jan 11th 2007 | FRANKFURT
From The Economist print edition

Hitler, as you have never seen him

GENOCIDE is not funny, nor was the war unleashed by Adolf Hitler on the rest of the world. But films that take Hitler seriously can hardly escape a closing image of him as a kind of tragic hero, isolated in his chancellery, going mad, surrounded by death and destruction, in a suicide pact with his lover.

Treating Hitler as a buffoon, persecuted by his general staff and obsessed by his dog and other minutiae, makes for a more convincing portrait of the monster who fiddled while his Reich burned. At least, that is what Dani Levy thinks.

EPA

Bad hair day

The Swiss-Jewish director's new film, “Mein Führer”, is set in the closing days of 1944. Hitler (a beautifully coiffed Helge Schneider) is due to give a rousing speech to the nation, but he has lost his self-esteem and his famous gravelly voice. Smooth Joseph Goebbels (Sylvester Groth) has a brilliant idea: haul in Adolf Grünbaum, a Jewish drama professor, from a concentration camp, to rekindle the Führer's oratory which was so often inspired by a hatred of Jews. Grünbaum (Ulrich Mühe) has the opposite effect, however: Hitler becomes completely dependent on him. Grünbaum, like Chaplin in “The Great Dictator”, finds himself delivering the Führer's speech, which offers an opportunity for subversion.

Within this framework there is plenty of scope for burlesque too: quips about Auschwitz and the final solution—not all my idea, says Hitler; the Führer in the bath with a toy battleship; losing half his moustache to a nervous barber; being mounted by Blondie, his Alsatian.

These episodes have a sinister quality about them because the toadies around Hitler are played straight, although Himmler has his arm strapped up in a permanent Nazi salute. The punctilious loyalty of the lesser Nazi henchmen was, after all, what kept Hitler and his 1,000-year Reich alive for so long. The rapport between Mr Mühe and Mr Schneider, a popular comedian, holds the plot together, though Mr Groth's icily charming Goebbels steals the show.

The film says nothing new about the Nazi era. Nor is it a convincing psychological study of a dictator. Like much of Molière's comedy, it is only sporadically funny. But as part of Germany's effort to come to terms with its Nazi past, it will make audiences—and not just German ones—think afresh about how such criminal buffoons could arrogate power.

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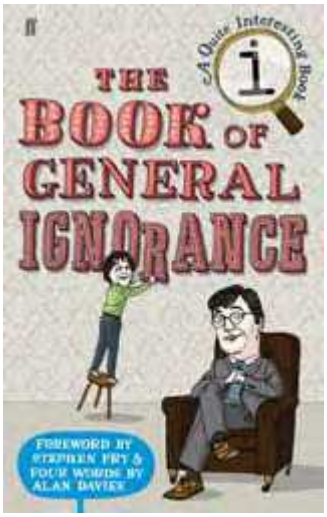
Amazon worldwide bestsellers

Christmas wagers

Jan 11th 2007
From The Economist print edition

Stephen Fry helps make a pile out of ignorance



BOOKMAKERS like bets and so do the makers of books. Every year, as Christmas approaches, publishers pray that their new stocking-filler will make their fortunes. In 2002 the winner was “Schott's Original Miscellany”, a little book of trivia, while the following year it was the tract that took a zero-tolerance attitude to punctuation, “Eats, Shoots and Leaves”. The magic moment in 2006 came when Stephen Fry turned from Hogwarts to hogwash, and wrote a foreword to “The Book of General Ignorance”.

Thomas Edison (who, according to the authors, did not invent the lightbulb) once stated that we know less than one millionth of 1% of anything. This book would make even Edison feel small and silly, for it offers answers to questions you never thought to ask or had no need of asking as you already knew, or thought you knew, the answer. “How many penises does a European earwig have?” is one example of the first, as is “Which country has the world's highest suicide rate?” or “Who blew the nose off the Sphinx?”

More tricky are the answers you thought you had already learned. The correct reply when asked “How many nostrils have you got?” is four, not two. Two you can see; two you can't. Similarly, King Henry VIII had two wives and not six; camels come from North America; Mauna Kea on Hawaii is the tallest mountain in the world and not Everest; the largest living thing is not a blue whale but a mushroom, while the largest thing a blue whale can swallow is not a large mushroom, but a grapefruit.

With 369,000 copies of the book sold so far, its publishers, Faber and Faber, are clearly still feasting off their 2006 Christmas winnings.

1. The Book of General Ignorance

by John Lloyd and John Mitchinson

Click to buy from Amazon.co.uk

2. The Audacity of Hope: Thoughts on Reclaiming the American Dream

by Barack Obama

Click to buy from Amazon.com and Amazon.co.uk

3. You On A Diet: The Owner’s Manual for Waist Management

by Michael F. Roizen and Mehmet C. Oz

Click to buy from Amazon.com and Amazon.co.uk

4. Why Don’t Penguins’ Feet Freeze?: And 114 Other Questions

by Mick O’Hare

Click to buy from Amazon.com and Amazon.co.uk

5. I Like You: Hospitality Under the Influence

by Amy Sedaris

Click to buy from Amazon.com and Amazon.co.uk

6. The Dangerous Book for Boys

by Conn Iggulden and Hal Iggulden

Click to buy from Amazon.com and Amazon.co.uk

7. Ich bin dann mal weg: Meine Reise auf dem Jakobsweg

by Hape Kerkeling

Click to buy from Amazon.de

8. For One More Day

by Mitch Albom

Click to buy from Amazon.com and Amazon.co.uk

9. The Secret

by Rhonda Byrne

Click to buy from Amazon.com and Amazon.co.uk

10. The Sound of Laughter

by Peter Kay

Click to buy from Amazon.com and Amazon.co.uk

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About sponsorship

Teddy Kollek

Jan 11th 2007
From The Economist print edition

Theodor (“Teddy”) Kollek, mayor of Jerusalem, died on January 2nd, aged 95

UPPA

IN HIS 28 years running Jerusalem, Teddy Kollek allowed only one thing to be named after him, and that as a joke: a loo at the Israel Museum. He detested public accolades. What satisfied his nonetheless considerable ego was the simple knowledge that most mayors would give a limb, or several, to have a fraction of the impact on their cities that he had on his.

When he was first elected in 1965, West Jerusalem was Israel's capital much as Brasilia was Brazil's. It contained the government, but no cultural institutions or big businesses to speak of. East Jerusalem, including the Old City, was still under Jordanian rule. The border ran within sight of Mr Kollek's dilapidated offices.

By then Mr Kollek had already signalled his ambitions for Jerusalem by founding the Israel Museum, today still the country's top repository of art and archaeology. But history dropped an opportunity in his lap. After Israel captured East Jerusalem along with the rest of the West Bank in the 1967 war, he had another vision: he would reunite the divided city into a multicultural “mosaic”, like the Vienna of his youth.

Four decades on, Jerusalem is unrecognisable. Its theatres and parks, museums and sports fields, highways and housing projects are almost all products of Mr Kollek's tireless energy, lobbying power and obsession with detail. And although visitors from affluent Tel Aviv still find Jerusalem a weird, tense backwater with too many nutcases and too little nightlife, its image abroad as the Eternal City where the three great monotheistic faiths converge is also largely thanks to Mr Kollek, who toured the world promoting it.

He never wearied of working on his city. His first task on waking was to drive around the streets, noting what needed doing. He kept his home number listed in the phone book, making himself available to citizens night and day. To his critics, on the other hand, his unification of Jerusalem was at best a naive illusion and at worst a deliberate belittling of its Palestinian Arab residents, producing a city that is now becoming increasingly divided again.

Mr Kollek's 54 years of life before the mayorship would themselves have made a decent biography, or better a spy novel. Born in Hungary in 1911 but brought up mostly in Vienna, he went to Palestine in 1934 and was soon working for the Jewish underground: first smuggling Jews out of Nazi-occupied Europe, then providing the British and Americans with intelligence against the Germans in Europe and the Middle East, while at the same time sneaking Jewish refugees and stolen British weapons into Palestine under the Mandate authorities' noses. Later, while posted to the new Israeli embassy in Washington, he played a key role in dispelling American suspicions that Israel was sympathetic to the Soviet Union, paving the way for the close co-operation on intelligence that formed the basis of a lasting friendship.

There he also honed his skills at raising money for the cash-strapped young state. He was a natural persuader: the man who, after one brief conversation in 1938, had induced Adolf Eichmann to grant him permits to get several hundred Jews out of Vienna. As mayor, he sweet-talked Israeli government ministers into paying for projects the city had no budget for, and set up the non-profit Jerusalem Foundation as a way to raise outside funding and bypass government bureaucracy.

Living with the Arabs

In 1967 most of East Jerusalem had no sewage system, water only twice a week, and hardly any telephones. After unification its residents were granted Israeli residency, but not citizenship. Mr Kollek's call for Arabs to get the same municipal services as Jews (“I'd love the city to be empty of Arabs, but since they are here we need to serve them”), his excellent relations with the local mukhtars and his emphasis on “pluralism” put him well to the left of most of his Jewish voters. Nonetheless, they five times re-elected him.

The Palestinians were less impressed. For all Mr Kollek's promises, East Jerusalem, with nearly a third of the city's residents, never got more than around 10% of the municipal budget. Mr Kollek blamed government obstruction and budget shortages, but some doubted that; he was, after all, the master at solving such problems. Arab voters persistently boycotted elections. That, and the growing strength of the ultra-Orthodox Jewish population, and the fact that he was 82, were what finally cost Mr Kollek his job in 1993.

Yet his deeper failure was to believe that the Palestinians would accept being a mere ethnic minority in a fundamentally Jewish city. He rejected the idea of Palestinian sovereignty over any part of Jerusalem until several years after leaving office. Instead, while mayor, he surrounded their neighbourhoods with massive new Jewish ones—illegal settlements, in the eyes of international law.

Moreover, Mr Kollek's valiant efforts to modernise the city were not enough to stop young, secular Jews from abandoning it as the ultra-Orthodox population grew. Today's unified Jerusalem is increasingly ghettoised between the different groups. It will be years before Mr Kollek's ultimate legacy for the city is clear. Still, it may be centuries before anyone else can call it, as he truly could, “my Jerusalem”.

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Overview

Jan 11th 2007
From The Economist print edition

Oil prices fell sharply, partly due to unseasonably mild weather in America's north-east. The benchmark price for a barrel of West-Texas Intermediate fell below $53, the lowest for two years and down almost a third from last July's peak.

China ran a trade surplus of $177.5 billion last year, up by 74% from 2005. Its exports amounted to $969 billion. This will add to the political pressure it faces from its trading partners to let its currency appreciate. But **America's** trade deficit in goods and services narrowed to $58.2 billion in November, the third monthly fall in a row. This suggests net exports will add to America's economic growth in the fourth quarter.

In **Germany** industrial production grew by 1.8% in November, leaving it 6% higher than a year earlier. The merchandise-trade surplus, adjusted for the season, reached €19.3 billion ($24 billion), the biggest ever. But retail sales fell by 0.5% in November, even before this month's rise in value-added taxes.

South Korea's unemployment rate edged downwards to 3.4% in November, from 3.5% the month before. **Taiwan's** trade surplus increased to $2.9 billion in December, from $2.4 billion the month before.

Our monthly panel of **economic forecasters** (see table) have cut their estimate of Japan's growth in 2006 to 2.3% on average, compared with December's estimate of 2.8%. They have also trimmed their 2007 forecast for the country, but nudged up their projection for growth in the euro area.

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Output, prices and jobs

Jan 11th 2007
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2006†	2007†	latest	latest	year ago	2007†	rate‡, %
United States	+3.0 Q3	+2.0	+3.3	+2.2	+3.8 Nov	+2.0 Nov	+3.5	+2.0	4.5 Dec
Japan	+1.6 Q3	+0.8	+2.3	+1.9	+4.8 Nov	+0.3 Nov	−1.0	+0.4	4.0 Nov
China	+10.4 Q3	na	+10.5	+9.4	+14.9 Nov	+1.9 Nov	+1.3	+2.1**	9.8 2006
Britain	+2.7 Q3	+2.7	+2.6	+2.4	+0.6 Oct	+2.7 Nov	+2.1	+2.2	5.5 Oct††
Canada	+2.5 Q3	+1.7	+2.8	+2.4	−2.4 Oct	+1.4 Nov	+2.0	+2.0	6.1 Dec
Euro area	+2.7 Q3	+2.0	+2.7	+2.0	+3.6 Oct	+1.9 Nov	+2.3	+2.1	7.6 Nov
Austria	+3.2 Q3	+3.6	+2.8	+2.3	+5.7 Oct	+1.6 Nov	+1.6	+1.6	4.7 Dec
Belgium	+3.1 Q3	+2.5	+2.8	+2.1	+7.9 Oct	+1.6 Dec	+2.9	+1.8	11.9 Nov§
France	+1.9 Q3	nil	+2.0	+2.0	−1.1 Nov	+1.4 Nov	+1.6	+1.4	8.7 Nov
Germany	+2.8 Q3	+2.6	+2.6	+1.6	+6.0 Nov	+1.4 Dec	+2.1	+2.1	9.8 Nov
Greece	+4.4 Q3	na	+4.1**	+3.5**	+1.6 Oct	+2.9 Nov	+3.5	+2.8**	8.3 Q3
Italy	+1.7 Q3	+1.1	+1.8	+1.2	+3.7 Oct	+1.9 Dec	+2.0	+1.9	6.8 Q3
Netherlands	+2.7 Q3	+2.8	+2.8	+2.3	+3.7 Nov	+1.1 Dec	+2.0	+1.7	5.4 Nov‡‡
Spain	+3.8 Q3	+3.6	+3.6	+3.0	+4.1 Nov	+2.7 Dec	+3.7	+2.7	8.4 Oct
Czech Republic	+5.8 Q3	+5.6	+6.0	+4.8	+12.8 Oct	+1.5 Nov	+2.4	+3.3	7.7 Dec
Denmark	+3.8 Q3	+2.5	+3.3	+2.3	+5.1 Oct	+1.8 Dec	+2.2	+1.9	4.0 Nov
Hungary	+3.8 Q3	+4.2	+3.7	+2.4	+10.8 Nov	+6.4 Nov	+3.3	+5.9	7.4 Oct
Norway	+2.6 Q3	+5.2	+2.5**	+2.3**	−5.8 Nov	+2.2 Dec	+1.8	+2.6**	3.1 Nov‡‡
Poland	+5.8 Q3	na	+5.3	+4.7	+11.7 Nov	+1.4 Nov	+1.0	+2.5**	14.9 Dec§
Russia	+6.5 Q3	na	+6.7	+6.5	+3.0 Nov	+9.1 Dec	+10.9	+9.2**	6.7 Nov§
Sweden	+4.4 Q3	+4.1	+4.6	+3.3	+6.2 Nov	+1.6 Dec	+0.9	+1.9	4.3 Nov§
Switzerland	+2.4 Q3	+1.5	+2.8	+2.0	+8.2 Q3	+0.6 Dec	+1.0	+1.0	3.3 Dec§
Turkey	+3.4 Q3	na	+5.2	+4.0	+10.9 Nov	+9.7 Dec	+7.7	+8.6**	9.1 Q3§
Australia	+2.2 Q3	+1.2	+2.5	+2.9	−3.0 Q2	+3.9 Q3	+3.0	+2.8	4.6 Dec
Hong Kong	+6.8 Q3	+14.8	+6.0	+5.0	−0.6 Q3	+2.2 Nov	+1.2	+2.5**	4.4 Nov‡‡
India	+9.2 Q3	na	+8.3	+7.4	+6.2 Oct	+6.3 Nov	+5.3	+6.1**	7.6 2006
Indonesia	+5.5 Q3	na	+5.3	+5.8	−4.8 Oct	+6.6 Dec	+17.1	+6.6**	10.3 2005
Malaysia	+5.9 Q3	na	+5.5	+5.2	+7.2 Nov	+3.0 Nov	+3.5	+3.4**	3.1 Q3
Pakistan	+6.6 2006§§	na	+6.2**	+6.6**	+6.8 Sep	+8.1 Nov	+7.9	+7.0**	na
Singapore	+5.9 Q4	+7.6	+7.7	+5.0	+14.7 Nov	+0.5 Nov	+1.0	+1.0**	2.7 Q3
South Korea	+4.6 Q3	+4.4	+4.9	+4.2	+6.3 Nov	+2.1 Dec	+2.7	+2.3**	3.3 Dec
Taiwan	+5.0 Q3	na	+4.1	+3.9	+0.9 Nov	+0.7 Dec	+2.2	+1.5**	3.9 Nov
Thailand	+4.7 Q3	+6.0	+4.3	+4.3	+7.7 Nov	+3.5 Dec	+5.8	+3.6**	1.7 Oct
Argentina	+8.7 Q3	+10.8	+7.9	+6.3	+8.3 Nov	+9.8 Dec	+12.3	+9.8**	10.2 Q3§
Brazil	+3.2 Q3	+1.4	+3.0	+3.3	+4.2 Nov	+3.0 Nov	+6.2	+3.7**	9.5 Nov§
Chile	+2.9 Q3	−0.2	+4.7	+5.3	+3.2 Nov	+2.6 Dec	+3.7	+2.3**	6.6 Nov§††
Colombia	+7.7 Q3	+8.1	+5.1	+4.5	+17.4 Oct	+4.5 Dec	+4.9	+4.2**	11.0 Nov§
Mexico	+4.6 Q3	+4.1	+4.4	+3.2	+4.6 Oct	+4.1 Dec	+3.3	+3.8**	3.6 Nov§
Venezuela	+10.2 Q3	na	+7.8	+5.5	+12.2 Sep	+17.0 Dec	+14.3	+17.0**	10.1 Q3§
Egypt	+5.9 Q1	na	+5.5	+5.4	+4.0 2005	+12.2 Nov	+3.4	+6.5**	11.8 Q1§
Israel	+4.6 Q3	−1.1	+4.2	+4.2	+37.1 Oct	−0.3 Nov	+2.7	+1.7**	8.3 Q3
Saudi Arabia	+5.3 2006**	na	+5.3**	+5.4**	na	+2.7 Oct	+0.9	+2.0**	na
South Africa	+4.5 Q3	+4.7	+4.3	+4.2	+7.5 Oct	+5.4 Nov	+3.4	+5.6**	25.6 Mar§
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+11.6 Q3	+11.7	+10.7**	+8.9**	+4.8 Nov	+5.1 Dec	+3.6	+3.8**	4.2 Oct
Finland	+5.8 Q3	+3.6	+4.5**	+2.7**	+5.4 Nov	+2.1 Nov	+0.8	+1.9**	7.5 Nov
Iceland	+0.8 Q3	+0.4	+3.7**	+0.7**	na	+7.0 Dec	+4.1	+5.4**	1.0 Oct§
Ireland	+7.7 Q3	+10.8	+5.8**	+5.3**	+5.8 Oct	+4.4 Nov	+2.6	+3.4**	4.5 Nov
Latvia	+11.8 Q3	na	+10.8**	+8.0**	+0.7 Nov	+6.8 Dec	+7.0	+5.2**	6.8 Oct
Lithuania	+6.4 Q3	+5.3	+7.3**	+6.5**	na	+4.5 Dec	+3.0	+4.4**	5.7 Oct
Luxembourg	+5.4 Q2	na	+5.5**	+4.3**	−0.4 Sep	+2.3 Dec	+2.5	+1.8**	4.6 Nov§
New Zealand	+1.3 Q3	+1.0	+1.9**	+1.8**	+0.5 Q2	+3.5 Q3	+3.4	+3.0**	3.8 Q3
Peru	+9.8 Oct	na	+6.0	+5.4	+9.4 Oct	+1.1 Dec	+1.5	+2.2**	8.5 Nov§
Philippines	+4.8 Q3	+1.3	+5.5	+5.3	−8.3 Sep	+4.7 Nov	+7.1	+5.1**	8.0 Q3**
Portugal	+1.5 Q3	−0.6	+1.2**	+1.4**	+5.5 Nov	+2.4 Nov	+2.6	na	7.4 Q3§
Slovakia	+9.8 Q3	na	+7.5**	+6.1**	+9.8 Nov	+4.3 Nov	+3.4	na	12.7 Oct
Slovenia	+5.6 Q3	na	+4.5**	+4.0**	+10.7 Oct	+2.8 Dec	+2.3	na	8.9 Oct

*% change on prev qtr, annual rate. †*The Economist* poll. ‡National definitions. §Not seasonally adjusted. **Economist Intelligence Unit estimate/forecast. ††Aug-Oct. §§Year ending June. ‡‡Sep-Nov

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy

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The Economist commodity-price index

Jan 11th 2007
From The Economist print edition

The Economist commodity-price index

2000=100

	Jan 2nd	Jan 9th*	% change on one month	% change on one year
Dollar index				
All items	187.0	168.0	–9.8	+13.5
Food	157.5	150.1	–1.7	+15.0
Industrials				
All	225.2	191.1	–16.9	+12.1
Nfa†	147.8	147.8	+5.7	+4.8
Metals	267.5	214.7	–23.0	+15.1
Sterling index				
All items	143.7	131.2	–8.6	+3.2
Euro index				
All items	130.2	119.4	–8.2	+5.3
Gold				
$ per oz	640.70	609.10	–3.1	+12.4
West Texas Intermediate				
$ per barrel	60.77	55.57	–8.8	–12.2

*Provisional †Non-food agriculturals.

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The Economist poll of forecasters, January averages

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From The Economist print edition

The Economist poll of forecasters, January averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2006	2007	2006	2007	2006	2007	2006	2007
Australia	2.3/2.9	2.3/3.5	2.5 (2.6)	2.9 (3.0)	3.4	2.8 (2.7)	-5.5	-5.2 (-5.1)
Belgium	2.6/3.0	1.8/2.2	2.8	2.1 (2.0)	2.1 (2.2)	1.8 (1.9)	2.1 (1.8)	2.2 (2.1)
Britain	2.5/2.7	2.0/2.8	2.6	2.4	2.3	2.2 (2.1)	-2.5 (-2.6)	-2.8 (-2.7)
Canada	2.7/3.0	1.8/2.8	2.8	2.4 (2.5)	2.1	2.0	1.5 (1.4)	1.1 (0.8)
France	2.0/2.1	1.5/2.4	2.0 (2.1)	2.0	1.8 (1.9)	1.4 (1.5)	-1.6	-1.1 (-1.3)
Germany	2.3/2.7	1.0/2.0	2.6 (2.4)	1.6 (1.5)	1.7	2.1 (2.2)	3.8 (3.1)	3.9 (3.2)
Italy	1.6/1.8	0.8/1.9	1.8 (1.7)	1.2 (1.3)	2.2	1.9	-2.0 (-2.3)	-1.8 (-1.9)
Japan	2.0/2.9	1.4/3.0	2.3 (2.8)	1.9 (2.0)	0.2	0.4 (0.5)	3.8 (3.7)	3.8 (3.7)
Netherlands	2.7/2.9	1.7/2.9	2.8 (2.7)	2.3	1.4 (1.6)	1.7	8.2 (7.3)	7.8 (6.3)
Spain	3.3/3.7	2.4/3.2	3.6 (3.5)	3.0 (2.9)	3.4 (3.6)	2.7 (2.8)	-8.5 (-8.2)	-8.5 (-8.0)
Sweden	4.2/5.1	2.8/3.7	4.6 (4.4)	3.3 (3.2)	1.4	1.9 (1.8)	6.9 (6.5)	6.4 (6.1)
Switzerland	2.7/3.0	1.5/2.4	2.8 (2.9)	2.0 (2.1)	1.1 (1.2)	1.0 (1.1)	14.6 (13.8)	13.4 (12.9)
United States	3.2/3.4	1.6/2.9	3.3	2.2	3.3	2.0 (2.1)	-6.6	-6.3 (-6.4)
Euro area	2.4/2.7	1.7/2.3	2.7 (2.6)	2.0 (1.9)	2.2	2.1	-0.3	-0.1

Sources: ABN AMRO, BNP Paribas, Citigroup, Decision Economics, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, JPMorgan Chase, Morgan Stanley, Scotiabank, UBS

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About sponsorship

Trade, exchange rates, budget balances and interest rates

Jan 11th 2007
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†	Currency units, per $ Jan 10th	Currency units, per $ year ago	Budget balance % of GDP 2007‡	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−837.2 Nov	−880.3 Q3	−6.3	–	–	−2.3	5.24	4.68
Japan	+76.7 Oct	+168.3 Oct	+3.8	120	114	−4.8	0.46	1.75
China	+177.5 Dec	+160.8 2005	+6.7	7.81	8.07	−1.9	3.10	3.06
Britain	−152.2 Nov	−69.7 Q3	−2.8	0.52	0.57	−2.7	5.31	4.80
Canada	+49.8 Nov	+28.9 Q3	+1.1	1.18	1.16	0.7	4.17	4.06
Euro area	−22.9 Oct	−26.7 Oct	−0.1	0.77	0.83	−1.7	3.75	na
Austria	−0.6 Oct	+12.2 Q3	+1.4	0.77	0.83	−1.4	3.75	4.00
Belgium	+15.5 Oct	+6.8 Sep	+2.2	0.77	0.83	0.1	3.80	4.01
France	−36.3 Oct	−42.4 Oct	−1.1	0.77	0.83	−2.5	3.75	4.00
Germany	+203.0 Nov	+121.5 Nov	+3.9	0.77	0.83	−1.7	3.75	3.97
Greece	−41.3 Sep	−27.9 Oct	−7.1†	0.77	0.83	−2.9	3.75	4.26
Italy	−27.7 Oct	−43.5 Oct	−1.8	0.77	0.83	−3.5	3.75	4.20
Netherlands	+38.2 Oct	+63.2 Q3	+7.8	0.77	0.83	0.6	3.75	3.99
Spain	−110.1 Oct	−99.9 Sep	−8.5	0.77	0.83	0.6	3.75	4.02
Czech Republic	+2.0 Nov	−5.2 Q3	−2.7	21.4	23.7	−4.0	2.56	3.75
Denmark	+6.9 Nov	+7.2 Nov	+2.2	5.76	6.17	3.0	3.91	3.94
Hungary	−2.8 Nov	−6.9 Q3	−5.9	198	207	−7.1	8.03	7.23
Norway	+57.8 Nov	+56.0 Q3	+17.6†	6.44	6.64	19.3	3.92	4.35
Poland	−4.2 Oct	−6.3 Oct	−2.3	3.00	3.13	−2.5	4.20	5.22
Russia	+141.2 Oct	+99.5 Q3	+7.3	26.5	28.4	5.9	11.00	6.25
Sweden	+19.7 Nov	+26.2 Q3	+6.4	7.06	7.73	2.4	3.07	3.82
Switzerland	+9.7 Nov	+105.9 Q3	+13.4	1.25	1.28	1.2	2.13	2.59
Turkey	−53.2 Nov	−34.4 Oct	−6.6	1.45	1.34	−2.8	19.71	19.79
Australia	−9.4 Nov	−39.5 Q3	−5.2	1.29	1.33	1.1	6.43	5.86
Hong Kong	−17.3 Nov	+19.2 Q3	+9.3	7.80	7.75	1.1	3.96	3.71
India	−48.8 Nov	−13.7 Q3	−2.2	44.6	44.2	−4.3	7.12	7.67
Indonesia	+38.5 Nov	+7.0 Q3	+1.4	9,080	9,465	−0.9	9.57	6.20§
Malaysia	+28.6 Nov	+22.2 Q3	+11.1	3.52	3.75	−4.1	3.73	5.29§
Pakistan	−12.9 Nov	−6.0 Q3	−5.1†	61.0	59.8	−4.6	10.32	6.39§
Singapore	+35.2 Nov	+39.0 Q3	+25.2	1.54	1.63	0.3	3.41	2.98
South Korea	+16.7 Dec	+6.2 Nov	nil	938	985	0.4	4.87	4.91
Taiwan	+21.3 Dec	+26.3 Q3	+5.0	32.7	32.1	−2.8	1.82	2.08
Thailand	+1.3 Nov	+2.1 Nov	nil	36.0	39.7	−1.2	5.25	5.04
Argentina	+12.0 Nov	+6.7 Q3	+1.6	3.08	3.05	1.4	10.63	na
Brazil	+46.1 Dec	+13.7 Nov	+0.3	2.15	2.27	−2.2	13.19	6.16§
Chile	+22.1 Dec	+5.2 Q3	+2.2	542	524	5.8	5.16	5.27§
Colombia	+0.3 Oct	−2.3 Q3	−2.1	2,248	2,275	−1.5	6.69	6.26§
Mexico	−5.9 Nov	−1.3 Q3	−1.1	11.0	10.6	−0.3	7.02	7.65
Venezuela	+36.8 Q3	+29.7 Q3	+10.1	3,913	2,653	−2.5	10.08	6.55§
Egypt	−11.1 Q2	+3.5 Q2	+1.1	5.70	5.74	−8.0	9.71	5.40§
Israel	−7.6 Nov	+6.7 Q3	+1.5	4.25	4.63	−2.9	4.64	5.28
Saudi Arabia	+125.6 2005	+90.0 2005	+25.7†	3.75	3.75	16.8	4.93	na
South Africa	−9.6 Nov	−13.5 Q3	−4.9	7.33	6.08	−2.0	9.35	7.77
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−3.1 Oct	−1.9 Oct	−11.1†	12.1	12.9	0.7	3.73	na
Finland	+11.4 Oct	+11.8 Oct	+4.0†	0.77	0.83	0.5	3.72	4.04
Iceland	−1.9 Nov	−3.9 Q3	−13.3†	73.0	61.1	2.1	15.02	na
Ireland	+35.9 Oct	−6.5 Q3	−4.8†	0.77	0.83	0.4	3.75	4.01
Latvia	−4.5 Oct	−3.6 Oct	−14.1†	0.54	0.58	−1.2	3.43	na
Lithuania	−4.7 Oct	−3.0 Oct	−9.5†	2.67	2.85	−0.5	3.78	na
Luxembourg	−5.5 Oct	+4.8 Q3	na	0.77	0.83	−0.9	3.75	na
New Zealand	−3.9 Nov	+6.1 Q3	−8.5†	1.46	1.44	4.1	6.70	5.88
Peru	+8.2 Oct	+1.8 Q3	+0.7	3.19	3.44	0.1	4.35	na
Philippines	−4.0 Oct	+4.4 Sep	+3.1	48.9	52.6	−0.8	5.94	na
Portugal	−23.1 Oct	−16.9 Oct	−7.9†	0.77	0.83	−3.7	3.75	4.16
Slovakia	−3.3 Oct	−5.4 Sep	−5.8†	26.7	30.9	−3.0	4.22	4.30
Slovenia	−2.0 Nov	−0.9 Oct	−2.1†	185	197.9	−0.9	na	na

*Merchandise trade only. †The Economist poll. ‡Economist Intelligence Unit forecast. §Dollar-denominated bonds.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Banke Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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About sponsorship

Markets

Jan 11th 2007
From The Economist print edition

Markets

	Index Jan 10th	% change on one week	% change on Dec 30th 2005 in local currency	% change on Dec 30th 2005 in $ terms
United States (DJIA)	12,442.2	–0.3	+16.1	+16.1
United States (S&P 500)	1,414.9	–0.1	+13.3	+13.3
United States (NAScomp)	2,459.3	+1.5	+11.5	+11.5
Japan (Nikkei 225)	16,942.4	–1.6	+5.2	+3.7
Japan (Topix)	1,663.0	–1.1	+0.8	–0.5
China (SSEA)	2,972.3	+5.6	+143.4	+151.7
China (SSEB, $ terms)	142.4	+9.5	+122.2	+129.7
Britain (FTSE 100)	6,160.7	–2.5	+9.6	+23.0
Canada (S&P TSX)	12,457.6	–1.9	+10.5	+9.7
Euro area (FTSE Euro 100)	1,270.7	–2.0	+16.7	+28.1
Euro area (DJ STOXX 50)	4,090.9	–2.3	+14.3	+25.5
Austria (ATX)	4,307.1	–5.7	+17.5	+28.9
Belgium (Bel 20)	4,405.9	–1.4	+24.1	+36.2
France (CAC 40)	5,502.0	–1.9	+16.7	+28.1
Germany (DAX)*	6,566.6	–1.9	+21.4	+33.3
Greece (Athex Comp)	4,507.4	+0.4	+23.0	+35.0
Italy (S&P/MIB)	41,360.0	–1.7	+15.8	+27.1
Netherlands (AEX)	492.5	–1.8	+12.8	+23.8
Spain (Madrid SE)	1,560.5	–1.5	+35.0	+48.1
Czech Republic (PX)	1,565.3	–3.3	+6.3	+22.3
Denmark (OMXCB)	426.8	–0.7	+16.0	+27.4
Hungary (BUX)	23,214.4	–6.1	+11.7	+20.8
Norway (OSEAX)	482.3	–4.1	+28.0	+34.6
Poland (WIG)	49,264.4	–3.8	+38.4	+50.2
Russia (RTS, $ terms)	1,770.7	–7.9	+45.3	+57.3
Sweden (Aff.Gen)	360.3	–1.7	+22.8	+38.3
Switzerland (SMI)	8,861.6	–0.7	+16.8	+23.6
Turkey (ISE)	36,629.9	–6.4	–7.9	–14.0
Australia (All Ord.)	5,502.1	–2.2	+16.8	+24.0
Hong Kong (Hang Seng)	19,568.3	–4.1	+31.5	+30.8
India (BSE)	13,362.2	–4.7	+42.2	+43.6
Indonesia (JSX)	1,710.4	–6.8	+47.1	+59.4
Malaysia (KLSE)	1,113.2	–0.3	+23.7	+33.0
Pakistan (KSE)	10,374.4	+3.1	+8.6	+6.4
Singapore (STI)	2,961.2	–2.5	+26.1	+36.3
South Korea (KOSPI)	1,355.8	–3.8	–1.7	+5.9
Taiwan (TWI)	7,698.5	–2.8	+17.6	+18.0
Thailand (SET)	622.3	–5.6	–12.8	–0.8
Argentina (MERV)	2,044.1	–2.5	+32.4	+30.0
Brazil (BSVP)	42,335.0	–4.7	+26.5	+37.2
Chile (IGPA)	12,359.7	–0.7	+34.3	+26.8
Colombia (IGBC)	10,560.1	–4.4	+11.0	+12.9
Mexico (IPC)	25,885.8	–2.8	+45.4	+40.3
Venezuela (IBC)	53,345.8	–0.4	+161.6	+72.9
Egypt (Hermes)	61,396.5	–1.6	+10.9	+11.7
Israel (TA-100)	917.8	–3.4	+10.9	+20.0
Saudi Arabia (Tadawul)	7,559.6	–4.7	–54.8	–54.8
South Africa (JSE AS)	24,535.6	–0.3	+35.6	+17.3
Europe (FTSEurofirst 300)	1,477.5	–1.7	+15.8	+27.1
World, dev'd (MSCI)	1,465.3	–1.6	+16.5	+16.5
Emerging markets (MSCI)	867.1	–5.8	+22.7	+22.7
World, all (MSCI)	362.1	–1.9	+17.0	+17.0
World bonds (Citigroup)	650.6	–1.2	+4.9	+4.9
EMBI+ (JPMorgan)	406.7	–0.7	+10.3	+10.3
Hedge funds (HFRX)	1,272.1	–0.3	+8.9	+8.9
Volatility, US (VIX)	11.5	12.0	12.1	(levels)
CDSs, Eur (iTRAXX)†	22.0	+4.8	–40.1	–34.3
CDSs, N Am (CDX)†	29.8	+2.7	–35.3	–35.3
Carbon trading (EU ETS) €	3.76	–28.0	–82.2	–80.5

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Mank

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Mergers and acquisitions

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All sorts of records were broken in mergers and acquisitions in 2006. According to Dealogic, a capital-markets information-systems firm, the value of announced M&A topped $4 trillion for the first time. Cash-only deals were worth almost $3 trillion and share-only transactions $602 billion. The combined price tag of European targets, almost $1.6 trillion, was the highest ever, and just pipped America's total. Cross-border deals were worth $1.3 trillion, another record, of which $219 billion went on American companies—$45 billion of this from Canada—and $210 billion on British firms. Finance, telecoms and property, which together accounted for 34% of the total volume, were the most popular targets.

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